GRUPO KALTEX, S.A. DE C.V.

(*incorporated under the laws of Mexico*)

Offer to Exchange
up to US$118 million aggregate principal amount of its outstanding 8.875% Senior Notes due 2022 for
(i) up to US$118 million aggregate principal amount of 14.500% Senior Notes due 2025, and
(ii) the Accrued Interest Payment and the Exchange Premium, as described below

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The Exchange Offer will expire at 11:59 p.m., New York City time, on December 12, 2022, unless we extend it (such date and time, as the same may be extended, the "Expiration Date"). In order to be eligible to receive New Notes (as defined below), Eligible Holders (as defined below) must validly tender and not validly withdraw their Existing Notes (as defined below) on or prior to the Expiration Date. Validly tendered Existing Notes may be withdrawn at any time prior to 11:59 p.m., New York City time, on December 12, 2022 (the "Withdrawal Deadline"), but not thereafter, except as may be required by applicable law.

We are a Mexican corporation that, pursuant to the terms of this Exchange Offer Memorandum, is conducting an offer to exchange (the "Exchange Offer") up to US$118 million aggregate principal amount of our outstanding 8.875% Senior Notes due 2022 (CUSIP Nos. 40054FAA5/P4953VAJ2; ISIN Nos. US40054FAA57/USP4953VAJ28) (the "Existing Notes"). The Existing Notes matured on April 11, 2022. We defaulted on the payment of the outstanding principal amount of the Existing Notes. Prior to the scheduled maturity of the Existing Notes we repurchased US$102 million of Existing Notes in the open market during 2021 and in early 2022. As of the date of this Exchange Offer Memorandum, US$218 million in aggregate principal amount of the Existing Notes remains outstanding. On October 11, 2022, we paid accrued and unpaid interest on the Existing Notes from, and including, April 11, 2022 to, but excluding, October 11, 2022.

Subject to the Exchange Offer Cap (as defined below), for each US$1,000 in principal amount of Existing Notes, Eligible Holders that tender their Existing Notes for exchange and whose Existing Notes are accepted by us for exchange will receive, on a date promptly following the Expiration Date (the "Settlement Date") (i) US$1,000 in principal amount of our newly issued 14.500% Senior Notes due 2025 guaranteed by certain of our subsidiaries (the "New Notes"), (ii) a cash payment in U.S. Dollars equal to the amount of interest accrued on the Existing Notes at the interest rate of 8.875% from, and including, October 11, 2022 to, but excluding, the Settlement Date (the "Accrued Interest Payment") (which will be calculated in the same manner as the accrued interest payable on the Existing Notes pursuant to the Existing Notes Indenture (as defined below)), and (iii) a cash payment in an amount equal to US$15.00 (the "Exchange Premium").

The Existing Notes may be tendered only in denominations of US$200,000 principal amount and integral multiples of US$1,000 in excess thereof, and the acceptance of Existing Notes for exchange may be subject to proration as described below. The New Notes will only be issued in minimum denominations of US$1,000 and any integral multiple of US$1.00.

In the event that the aggregate principal amount of Existing Notes validly tendered (and not validly withdrawn) prior to the Expiration Date in the Exchange Offer exceeds US$118 million (the "Exchange Offer Cap"), then tenders of Existing Notes shall be accepted for exchange by us on a prorated basis, with the prorated aggregate principal amount of each Eligible Holder's validly tendered Existing Notes accepted for exchange rounded down to the nearest US$1,000. If proration causes the Company to return less than the minimum denomination to any Eligible Holder, then the Company will, at its option, either accept all or reject all of the tendered amount of such Eligible Holder's Existing Notes such that either no Existing Notes from such Eligible Holder are accepted for exchange or at least the minimum denomination of such Existing Notes is accepted for exchange. Any Existing Notes validly tendered and not accepted for exchange as a result of such proration, together with any other Existing Notes not tendered in the Exchange Offer, shall, as a condition to the consummation of the Exchange Offer pursuant to the terms of the Transaction Support Agreement (as defined below), be redeemed in full (including accrued and unpaid interest on such Existing Notes from, and including, October 11, 2022 to, but excluding, the Settlement Date) by the Company on the Settlement Date, and all other obligations under the Existing Notes Indenture shall be discharged. Therefore, if the Exchange Offer is consummated, on the Settlement Date, the full outstanding aggregate principal amount of the Existing Notes shall be either be exchanged for New Notes or repaid in cash.

Pursuant to the terms of the Transaction Support Agreement (as defined below), the issuance of the New Notes is conditioned upon, and is expected to occur simultaneously with, the redemption in full of any Existing Notes that are not exchanged in the Exchange Offer, including any Existing Notes validly tendered and not accepted for exchange as a result of proration. Therefore, upon consummation of the Exchange Offer, all Existing Notes shall either be (i) exchanged for New Notes pursuant to the Exchange Offer (and immediately cancelled by the Company) or (ii) redeemed in full (including accrued and unpaid interest on such Existing Notes from, and including, October 11, 2022 to, but excluding, the Settlement Date) by the Company on the Settlement Date and all other obligations under the Existing Notes Indenture shall be discharged. Therefore,

if the Exchange Offer is consummated, on the Settlement Date, the full outstanding aggregate principal amount of the Existing Notes shall be either exchanged for New Notes or redeemed for cash. This Exchange Offer Memorandum shall not constitute a notice of redemption under the Existing Notes Indenture, and no assurances can be given that the Exchange Offer (including the repayment of all or any portion of the Existing Notes) will be consummated in its terms or at all, see "Risk Factors—Risks Relating to the Exchange Offer."

The principal objective of the Exchange Offer is to refinance up to US$118 million in aggregate principal amount of the Existing Notes. We did not pay in full the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022 and do not currently have the means to repay the principal amount of, or accrued interest on, the Existing Notes, or any future amounts that may become payable under the Existing Notes Indenture. We believe that the completion of the Exchange Offer is critical to resolving our constrained liquidity and ensuring our continued viability.

We entered into a Transaction Support Agreement (the "Transaction Support Agreement") dated November 4, 2022, between us, the subsidiary guarantors of the Existing Notes (the "Existing Guarantors"), the New Notes Guarantors (as defined below), and certain holders of Existing Notes (the "TSA Supporting Noteholders") whereby the TSA Supporting Noteholders have agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. In addition, we entered into letter agreements (the "Additional Holder Letter Agreements") between us, the Existing Guarantors, the New Notes Guarantors, and certain additional holders of Existing Notes (the "Additional Supporting Noteholders" and, together with the TSA Supporting Noteholders, the "Supporting Noteholders"), whereby the Additional Supporting Noteholders agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. The Supporting Noteholders represent 44% of the Existing Notes outstanding as of the date of this Exchange Offer Memorandum (with 35% representing the TSA Supporting Noteholders and 9% representing the Additional Supporting Noteholders). The Supporting Noteholders have agreed with us to tender their Existing Notes for exchange for New Notes pursuant to the Exchange Offer, subject to certain conditions, including (i) the funding of the Concurrent Loan Facility (as defined herein), (ii) as of the Expiration Date, Additional Supporting Noteholders having validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) US$22.0 million in aggregate principal amount of Existing Notes, and (iii) the repayment in full on the Settlement Date of any Existing Notes that are not exchanged in the Exchange Offer as described in "The Exchange Offer—Background and Purpose."

The Transaction Support Agreement also contemplates a contractual commitment from certain Supporting Noteholders (the "New Money Notes Funding Parties") to purchase, on the Settlement Date, up to US$20,000,000 (the "Commitment Amount") in principal amount of New Notes (such commitment to be reduced on a dollar-for-dollar principal amount basis to the extent that more than US$98,000,000 principal aggregate amount of New Notes would be issuable in the Exchange Offer pursuant to valid tenders of Existing Notes in the Exchange Offer), at a purchase price payable in U.S. Dollars of 100% of the principal amount thereof, pursuant to a funding commitment letter dated November 4, 2022 entered into between the New Money Notes Funding Parties, the Company, the Existing Guarantors and the New Notes Guarantors (the "Funding Commitment Letter"). If the New Money Notes Funding Parties are required to purchase any New Notes pursuant to the terms of the Funding Commitment Letter, the New Money Notes Funding Parties, the Company, the Existing Guarantors and the New Notes Guarantors shall enter into a purchase agreement governing the purchase of such New Notes by the New Money Notes Funding Parties and pursuant to which the Company, the Existing Guarantors and the New Notes Guarantors shall indemnify the New Money Notes Funding Parties against certain liabilities. The Funding Commitment Letter requires the Company to pay to each New Money Notes Funding Party a commitment fee of 5% of the Commitment Amount of such New Money Notes Funding Party (the "Commitment Fee"). The Funding Commitment Letter provides that (i) 1/5 of the Commitment Fee was paid to the relevant New Money Notes Funding Party in cash in U.S. Dollars prior to the date hereof and (ii) 4/5 of the Commitment Fee shall be payable to the relevant New Money Notes Funding Party in cash in U.S. Dollars on the Settlement Date (the "Subsequent Commitment Fee"). Any New Notes to be purchased by the New Money Notes Funding Parties shall be offered and sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the United States Securities Act of 1933, as amended (the "Securities Act").

The Exchange Offer is subject to certain conditions, which we may waive in full or in part in our sole discretion, but subject to the terms of the Transaction Support Agreement, including (i) the condition that at least US$98,000,000 in aggregate outstanding principal amount of the Existing Notes is validly tendered and not validly withdrawn at or prior to the Expiration Date (the "Minimum Tender Condition") and (ii) the availability of cash on hand, borrowings under the Concurrent Loan Facility and proceeds from the issue, if any, of New Notes for cash to the New Money Notes Funding Parties in an amount sufficient to fund the Accrued Interest Payment, the Exchange Premium, the payment of estimated fees and expenses relating to the Exchange Offer, the Concurrent Loan Facility and the Funding Commitment Letter, and the repayment in full on the Settlement Date of any Existing Notes that are not exchanged in the Exchange Offer, including any Existing Notes validly tendered and not accepted for exchange as a result of proration (the "Financing Condition"). We may, in our sole discretion, but subject to the terms of the Transaction Support Agreement, terminate prior to the Expiration Date the Exchange Offer. No letter of transmittal or consent needs to be executed in order for Eligible Holders (or any bank, broker, dealer, trust company or other custodial entity on behalf of an Eligible Holder) to tender Existing Notes for exchange pursuant to the terms of the Exchange Offer.

The New Notes will mature on September 30, 2025, and are our direct senior obligations. Interest on the New Notes will accrue from the Settlement Date and will be payable in arrears on April 11 and October 11, of each year, beginning on April 11, 2023. Interest on the New Notes will accrue at the rate of 14.500% per annum payable in respect of the outstanding principal amount of the New Notes (up to 1.500% of which may, at the Company's option, be paid in the form of "PIK Notes"). An interest payment partially paid in the form of PIK Notes shall be made through an issuance of an aggregate principal amount of New Notes equal to the amount of relevant interest payment that is being paid in kind. PIK Notes shall have the same terms as, and shall be fungible with, the other outstanding Notes.

The New Notes will be unconditionally guaranteed, on the Settlement Date, by the following subsidiaries of the Company: (i) Kaltex America, Inc., (ii) Kaltex Apparel, S.A. de C.V., (iii) Kaltex Comercial, S.A. de C.V., (iv) Kaltex Home, S.A. de C.V., (v) Kaltex Internacional, S.A. de C.V., (vi) Kaltex Textiles, S.A. de C.V., and (vii) Manufacturas Kaltex, S.A. de C.V. (collectively the "New Notes Guarantors"). The New Notes and the guarantees of the New Notes Guarantors will be our and the New Notes Guarantors' senior unsubordinated general obligations (subject to certain statutory preferences under applicable law, including without limitation, tax, social security and labor obligations) and will rank equally in right of payment with each other and with all of our and the New Notes Guarantors' respective existing and future senior unsubordinated general obligations. In addition, the New Notes and the guarantees of the New Notes Guarantors will rank structurally junior to debt obligations

of any non-guarantor subsidiaries. The guarantees of the New Notes Guarantors will be subject to contractual and legal limitations under relevant laws.

The New Notes and the guarantees of the New Notes Guarantors will be secured obligations of the Company and the New Notes Guarantors which will rank effectively senior to other existing and future unsecured obligations of the Company and the New Notes Guarantors to the extent of the value of the Collateral (as defined herein).

The New Notes will be secured by first-priority liens on:

- the following assets currently owned by Manufacturas Kaltex (which shall constitute all or substantially all of the assets of the Kaltex Textiles business other than inventory, accounts receivable and intellectual property), with an estimated value of approximately Ps.4.8 billion, based upon independent appraisals conducted in December 2021 (or approximately US$230 million converted into U.S. Dollars at the Official Exchange Rate on December 31, 2021, which was Ps.20.58 to US$1.00);[1]
    - 12 plots of land and the buildings thereon in Tlautla (Tepeji del Río, Hidalgo, Mexico), with a value of approximately Ps.988.8 million or US$48 million;
    - five plots of land and the buildings thereon in San Juan del Rio (Querétaro, Mexico), with a value of approximately Ps.684.7 million or US$33.3 million;
    - five plots of land and the buildings thereon in Tlaxinacalpan (Tepeji del Río, Hidalgo, Mexico), with a value of approximately Ps.373.4 million or US$18.1 million;
    - Machinery in Tlautla (Tepeji del Río, Hidalgo, Mexico), with a value of approximately Ps.1,225.5 million or US$59.5. million;
    - Machinery in San Juan del Rio (Querétaro, Mexico), with a value of approximately Ps.683.7 million or US$33.2 million; and
    - Machinery in Tlaxinacalpan (Tepeji del Río, Hidalgo, Mexico), with a value of approximately Ps.864.4 million or US$42 million;
- a segregated bank account subject to an account control agreement into which all proceeds from Collateral Asset Sales (as defined herein) (in U.S. Dollars and Mexican pesos) shall be deposited (the "Asset Sale Account"); and
- any material assets acquired by the Company and the New Notes Guarantors after the Settlement Date, which will be promptly pledged, to the extent not pledged or secured in respect of a third-party financing permitted by the New Notes Indenture.

None of the assets or capital stock of the Unrestricted Subsidiaries (as defined below) will secure the New Notes. All Collateral other than the Asset Sale Account will be pledged or mortgaged pursuant to the Security Documents (as defined below).

The New Notes will be secured by first priority security interests as set forth in the Security Documents. In order for the first priority security interests in the Collateral to secure the obligations under the New Notes and the New Notes Indenture, on the Settlement Date, the parties to the Existing Mortgages Amendment Agreement, Existing Pledge Amendment Agreements, the New Mortgage Agreements and the Collateral Asset Sale Accounts Pledge Agreement (each as defined herein) will enter into such Security Documents, in each case to be executed before a Mexican notary public on the Settlement Date. The New Notes Indenture requires the Company and the New Note Guarantors to take certain actions in order to procure that the relevant Security Documents are filed with relevant public registries to perfect and register the relevant security interests on the Collateral. See "Description of the New Notes—Collateral."

The New Notes shall be redeemable at our option, in whole or in part, at any time, in one or more occasions, at a price equal to 101% of the principal amount of the New Notes to be redeemed plus accrued interest to the redemption date. No other penalty, make-whole premium or amount shall be payable upon an optional redemption. See "Description of the New Notes—Optional Redemption."

The New Notes Indenture and the applicable Security Documents shall provide that the Company and its Restricted Subsidiaries (as defined herein) shall be permitted to make Collateral Asset Sales and Asset Sales (as defined below), subject to certain conditions. The New Notes Indenture shall provide for permitted uses of the net proceeds from a Collateral Asset Sale or an Asset Sale. In certain circumstances, the Company shall be required to make an Asset Sale Offer or a Collateral Asset Sale Offer (each as defined herein) pursuant to which the Company would be required to make an offer to purchase a specified aggregate principal amount of New Notes at a purchase price equal to 100% of the principal amount of the New Notes to be purchased, plus accrued and unpaid interest thereon to the date of purchase. See "Description of the New Notes—Collateral—Collateral Asset Sales" and "Description of the New Notes—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock."

[1] The amounts presented below have been converted into U.S. Dollars solely for the convenience of the reader using the Official Exchange Rate as of December 31, 2021, which was Ps.20.58 per U.S. Dollar. The value of the assets was determined by independent appraisals conducted in December 2021.

Upon the occurrence of a Change of Control (as defined herein), each Holder will have the right to require that the Company purchase all or a portion such Holder's New Note at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon. See "Description of the New Notes—Change of Control."

There is currently no public market for the New Notes. Application will be made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in and the listing and quotation of the New Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Exchange Offer Memorandum. Approval-in-principle from, and admission of the New Notes to the Official List of, the SGX-ST and quotation of the New Notes on the SGX-ST are not to be taken as an indication of the merits of the Exchange Offer, the Company, its subsidiaries, their respective associated companies, their respective joint venture companies or the New Notes. Pursuant to the terms of the Transaction Support Agreement, the Company has agreed to list the New Notes on the SGX-ST no later than the business day following the Settlement Date.

Notification Pursuant to Section 309B(1) of the Securities and Futures Act 2001 of Singapore—The New Notes are prescribed capital markets products as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore.

You should carefully consider the risk factors beginning on page 27 of this Exchange Offer Memorandum before deciding whether or not to participate in the Exchange Offer.

The New Notes offered pursuant to this Exchange Offer Memorandum have not been and will not be registered under the Securities Act, or any state securities laws. The New Notes are being offered for exchange only (1) in the United States, to holders of Existing Notes who are "qualified institutional buyers" as defined in Rule 144A under the Securities Act ("QIBs"), in a private transaction in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof and (2) outside the United States, to holders of Existing Notes other than "U.S. persons" (as defined in Rule 902 under the Securities Act) ("Non-U.S. Persons") who are not acquiring New Notes for the account or benefit of a U.S. person and who are "non-U.S. qualified offerees" (as defined under "Transfer Restrictions of New Notes"), in offshore transactions in compliance with Regulation S under the Securities Act. Only holders who have returned a duly completed eligibility letter certifying that they are within one of the categories described in the immediately preceding sentence (the "Eligibility Letter") are authorized to receive and review this Exchange Offer Memorandum and to participate in the Exchange Offer (such holders, "Eligible Holders"). For a description of eligible offerees and certain restrictions on transfer of the New Notes, see "Transfer Restrictions of New Notes." The New Notes are being offered pursuant to an exemption from the requirement to publish a prospectus under Regulation (EU) 2017/1129 (as amended and supplemented from time to time, the "Prospectus Regulation"), of the European Union, and this Exchange Offer Memorandum has not been approved by a competent authority within the meaning of the Prospectus Regulation. The New Notes are not intended to be offered, sold, or otherwise made available to and should not be offered, sold, or otherwise made available to any retail investor in the European Economic Area or the United Kingdom.

THE NEW NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY MAINTAINED BY THE COMISIÓN NACIONAL BANCARIA Y DE VALORES (NATIONAL BANKING AND SECURITIES COMMISSION OF MEXICO, OR THE "CNBV") AND THEREFORE THE NEW NOTES MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO ABSENT AN AVAILABLE EXEMPTION UNDER THE LEY DEL MERCADO DE VALORES (MEXICAN SECURITIES MARKET LAW). THE EXCHANGE OFFER IS NOT BEING MADE IN MEXICO. AS REQUIRED UNDER THE LEY DEL MERCADO DE VALORES (MEXICAN SECURITIES MARKET LAW), WE WILL GIVE NOTICE TO THE CNBV OF THE EXCHANGE OFFER FOR INFORMATIONAL PURPOSES ONLY. THE DELIVERY TO, AND RECEIPT BY, THE CNBV OF SUCH NOTICE DOES NOT CERTIFY THE INVESTMENT QUALITY OF THE NEW NOTES OR OUR SOLVENCY. THE INFORMATION CONTAINED IN THIS EXCHANGE OFFER MEMORANDUM IS OUR SOLE RESPONSIBILITY. THIS EXCHANGE OFFER MEMORANDUM HAS NOT BEEN FILED WITH THE CNBV, AND THE CNBV HAS NOT REVIEWED OR AUTHORIZED THE CONTENT OF THIS EXCHANGE OFFER MEMORANDUM.

The Exchange Offer has not been approved or disapproved by the United States Securities and Exchange Commission, or by any other U.S. federal, state or foreign securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed or passed upon the accuracy or determined the adequacy of this Exchange Offer Memorandum. Any representation to the contrary is a criminal offense.

The Dealer Manager for the Exchange Offer is:

BCP Securities, Inc.

The date of this Exchange Offer Memorandum is November 14, 2022.

We are soliciting Holders (as defined herein) to tender their Existing Notes in the Exchange Offer. By exchanging your Existing Notes, you will be deemed to have both offered and agreed to exchange your Existing Notes pursuant to the Exchange Offer, and acknowledge and agree that we, in our sole discretion, subject to the terms of the Transaction Support Agreement, may accept your offer to exchange (subject to proration if the Exchange Offer Cap is exceeded) relating to the Exchange Offer if the applicable conditions are satisfied or waived.

The New Notes have not been, and will not be, registered under the Securities Act. The New Notes are being offered: in the United States, to holders of Existing Notes who are QIBs, in a private transaction in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof; and outside the United States only to, or for the account or benefit of, Non-U.S. Persons who are "non-U.S. qualified offerees" in offshore transactions in compliance with Regulation S under the Securities Act.

Thereafter, the New Notes may only be offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, including outside the United States in offshore transactions pursuant to Regulation S.

Only Eligible Holders that have previously completed and returned to the Information and Exchange Agent an Eligibility Letter are authorized to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. No action has been or will be taken in any jurisdiction by us, the Dealer Manager or the Information and Exchange Agent that would constitute a public offering of the New Notes.

The Exchange Offer is not being made to persons in any jurisdiction in which it is unlawful to make such offer, or to tender Existing Notes for exchange. The distribution of this Exchange Offer Memorandum or any part hereof and the Exchange Offer may be restricted by law. Each Holder of Existing Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or exchanges the Existing Notes and the New Notes and must obtain any consent, approval or permission required by any such jurisdiction for such purchase, offer, sale or exchange under the laws and regulations in force in any jurisdiction to which such Holder is subject or in which it makes such purchases, offers, sales or exchanges, and we will not have any responsibility therefor. We require persons into whose possession this Exchange Offer Memorandum comes to inform themselves about and to observe any such restrictions.

As is described in more detail in "The Exchange Offer," the valid exchange of Existing Notes by Holders of Existing Notes requires delivery of the Existing Notes via ATOP (as defined herein) in accordance with the procedures set forth in the section "Procedures for Holders Exchanging Existing Notes."

Compliance with "Short Tendering" Rule

It is a violation of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for a person, directly or indirectly, to tender Existing Notes for its own account unless the person so tendering (a) has a net long position equal to or greater than the aggregate principal amount of the Existing Notes being tendered and (b) will cause such Existing Notes to be delivered in accordance with the terms of the Exchange Offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A tender of Existing Notes in the Exchange Offer under any of the procedures described above will constitute a binding agreement between the tendering registered holder and us with respect to the Exchange Offer upon the terms and subject to the conditions of the Exchange Offer, including the tendering holder's acceptance of the terms and conditions of the Exchange Offer, as well as the tendering holder's representation and warranty that (a) such holder has a net long position in the Existing Notes being tendered pursuant to the Exchange Offer within the meaning of Rule 14e-4 under the Exchange Act and (b) the tender of such Existing Notes complies with Rule 14e-4.

TIMELINE FOR EXCHANGE OFFER

Date and Time	Event
November 14, 2022	***Launch of the Exchange Offer.*** The day the Exchange Offer is announced and this Exchange Offer Memorandum is made available to Eligible Holders who have returned a duly completed Eligibility Letter.
December 12, 2022 at 11:59 p.m. (New York City time)	***Withdrawal Deadline.*** The last time and date for Eligible Holders who have tendered their Existing Notes to withdraw all or a portion of such tendered Existing Notes.
December 12, 2022 at 11:59 p.m. (New York City time)	***Expiration Date.*** The deadline for Eligible Holders to validly tender Existing Notes in the Exchange Offer. We reserve, subject to applicable law, the right to extend the Expiration Date at our discretion.
Expected to occur within five business days following the Expiration Date	***Settlement Date.*** If all conditions precedent to the Exchange Offer are satisfied or waived (subject to the terms of the Transaction Support Agreement), we expect to deliver the applicable New Notes and repay the remaining Existing Notes in cash on the Settlement Date (which we currently expect would be within five business days following the Expiration Date). If any conditions precedent are not satisfied, or the Exchange Offer is terminated for any reason, we will promptly return all Existing Notes to Holders.

The above times and dates are subject to our right to extend, amend and/or terminate the Exchange Offer (subject to applicable law and as provided in this Exchange Offer Memorandum). Eligible Holders of Existing Notes are advised to check with any bank, securities broker or other intermediary through which they hold Existing Notes as to when such intermediary would need to receive instructions from a beneficial owner in order for that beneficial owner to be able to participate in, or withdraw their instruction to participate in, the Exchange Offer before the deadlines specified in this Exchange Offer Memorandum. The deadlines set by any such intermediary and The Depository Trust Company ("DTC") for the submission of tender instructions will be earlier than the relevant deadlines specified above.

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You should rely only on the information contained in this Exchange Offer Memorandum or in any public announcement made by the Company in connection with the Exchange Offer. The Company has not authorized anyone to provide you with information that is different. The information in this document may only be accurate on the date of this Exchange Offer Memorandum.

ABOUT THIS EXCHANGE OFFER MEMORANDUM

This Exchange Offer Memorandum is being made available to Eligible Holders of Existing Notes for use solely in connection with their evaluation of the Exchange Offer.

This Exchange Offer Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire any of the New Notes. Each person receiving this Exchange Offer Memorandum represents that such person's investment decision is based solely on this Exchange Offer Memorandum and that such person is not relying on any other information it may have received from us except as acknowledged below. Each recipient, by accepting delivery of this Exchange Offer Memorandum, agrees to the foregoing and, if the offeree is not eligible to participate in the Exchange Offer, to return this Exchange Offer Memorandum and all such documents delivered herewith to: D.F. King & Co., Inc. (the "Information and Exchange Agent") and/or BCP Securities, Inc. ("BCP Securities" or the "Dealer Manager") at the addresses set forth on the back cover of this Exchange Offer Memorandum.

This Exchange Offer Memorandum does not constitute an offer or an invitation by, or on behalf of, us or by, or on behalf of, the Dealer Manager to participate in the Exchange Offer in any jurisdiction in which it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Exchange Offer Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this Exchange Offer Memorandum comes are required by us and the Dealer Manager to inform themselves about and to observe any such restrictions. This Exchange Offer Memorandum may not be used for or in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. See "Offer and Distribution Restrictions."

You should not construe the contents of this Exchange Offer Memorandum as investment, legal or tax advice. You should consult your own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of the Exchange Offer.

This Exchange Offer Memorandum contains summaries of certain documents which we believe are accurate. We refer you to the actual documents and information for a more complete understanding of what is discussed in this Exchange Offer Memorandum, and we qualify all summaries by such reference. We will make copies of such documents and information available to you upon request.

In making an investment decision regarding the New Notes offered for exchange hereby, you must rely on your own examination of us, our subsidiaries and the terms of the Exchange Offer, including, without limitation, the merits and risks involved. The Exchange Offer is being made on the basis of this Exchange Offer Memorandum. Any decision to tender Existing Notes must be based on the information contained herein.

Notwithstanding anything herein to the contrary, except as reasonably necessary to comply with applicable securities laws, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the United States federal and state income tax treatment and structure of the Exchange Offer and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such tax treatment and tax structure. For this purpose, "tax structure" is limited to facts relevant to the United States federal and state income tax treatment of the Exchange Offer and does not include information relating to our identity or that of our affiliates, agents or advisors.

By accepting this Exchange Offer Memorandum, you agree to hold the information contained or referred to herein and the transactions contemplated hereby in confidence.

All inquiries relating to this Exchange Offer Memorandum and the Exchange Offer contemplated herein should be directed to D.F. King & Co., Inc. and/or BCP Securities, Inc. Holders may obtain additional information that they may reasonably require in connection with the decision to participate in the Exchange Offer from D.F. King & Co., Inc., BCP Securities, Inc. or from us.

Nothing contained in this Exchange Offer Memorandum is or shall be relied upon as a promise or representation, whether as to the past or the future. This Exchange Offer Memorandum contains summaries that we

believe to be accurate of certain terms of certain documents, but reference is made to the actual documents, copies of which may be made available upon request, for the complete information contained therein. All such summaries are qualified in their entirety by this reference.

The information contained herein is as of the date hereof and subject to change, completion or amendment without notice. Neither the delivery of this Exchange Offer Memorandum at any time nor any subsequent commitment to enter into any exchange shall, under any circumstances, create any implications that there has been no change in the information set forth in this Exchange Offer Memorandum or in our affairs or those of our subsidiaries since the date of this Exchange Offer Memorandum.

Subject to compliance with applicable securities laws and the terms set forth in this Exchange Offer Memorandum and the Transaction Support Agreement, we expressly reserve the right to extend the Exchange Offer and to waive any condition to the Exchange Offer. Any such extension, waiver or amendment may be made by press release or by such other means as we deem appropriate.

None of the Company, the Dealer Manager, The Bank of New York Mellon as trustee under the indenture governing the Existing Notes or the Information and Exchange Agent makes any recommendation as to whether or not Eligible Holders of the Existing Notes should tender Existing Notes in the Exchange Offer.

You should read this entire Exchange Offer Memorandum, any public announcement made by the Company in connection with the Exchange Offer, and any amendments or supplements to this Exchange Offer Memorandum carefully before making your decision to participate in the Exchange Offer.

How to Exchange your Existing Notes

Only custodial entities that are participants in DTC may tender the Existing Notes through DTC's Automated Tender Offer Program, known as "ATOP."

If an Eligible Holder of Existing Notes desires to participate in the Exchange Offer, such Eligible Holder should review the directions contained in this Exchange Offer Memorandum and arrange for the delivery of its Existing Notes through ATOP by the Expiration Date. Please note that an Eligible Holder of Existing Notes desiring to participate in the Exchange Offer must instruct its bank, broker, dealer, trust company or other custodial entity (pursuant to the procedures of the custodial entity) to tender its Existing Notes on such Holder's behalf.

General

We reserve the right to reject any tender not received in the appropriate form. None of BCP Securities, Inc., D.F. King & Co., Inc., nor we assume any responsibility for the failure of you or the direct participant that holds your Existing Notes to deliver the Existing Notes via ATOP on time or in the appropriate form.

We have not provided guaranteed delivery procedures in connection with the Exchange Offer.

FOR FURTHER INFORMATION YOU MAY CONTACT D.F. KING & CO., INC. AND BCP SECURITIES, INC. AT THE TELEPHONE NUMBERS LISTED ON THE BACK COVER OF THIS EXCHANGE OFFER MEMORANDUM.

TERMS USED IN THIS EXCHANGE OFFER MEMORANDUM

- In this Exchange Offer Memorandum, accounting terms have the definitions set forth under IFRS, except as otherwise disclosed.

- All references to tons in this Exchange Offer Memorandum are to metric tons. One metric ton is equal to 1,000.0 kilograms or 2,204.6 pounds;

- All references to "Banxico" are to Banco de México, the Central Bank of Mexico;

- All references to "CAFTA" are to the Central America Free Trade Agreement;

- All references to "Coltejer" are Coltejer, S.A., a subsidiary of Kaltex Internacional;

- All references to "Energía MK KF" are to Energía MK KF, S.A. de C.V., a subsidiary of Kaltex Energía;

- All references to the "Existing Notes Indenture" are to the Indenture dated as of April 11, 2017 among the Company, the Existing Guarantors, and The Bank of New York Mellon;

- All references to "GAAP" are to generally accepted accounting, or equivalent, principles in the indicated country;

- All references to "GDP" are to gross domestic product;

- All references to "Grupo Milano" are to Grupo Milano, S.A. de C.V.;

- All references to "Holder" are, with respect to any Existing Note, each registered holder of the Existing Notes;

- All references to "IASB" are to the International Accounting Standards Board;

- All references to "IFRS" are to International Financial Reporting Standards, as issued by the IASB;

- All references to "Kaltex America" are to Kaltex America, Inc., a subsidiary of Kaltex Internacional;

- All references to "Kaltex Apparel" are to Kaltex Apparel, S.A. de C.V., a subsidiary of Kaltex Textiles;

- All references to "Kaltex Argus" are to Kaltex Argus, S.A., a subsidiary of Kaltex Textiles;

- All references to "Kaltex Colombia" are to Kaltex Colombia, S.A.S., a subsidiary of Kaltex Internacional;

- All references to "Kaltex Comercial" are to Kaltex Comercial, S.A. de C.V., a subsidiary of Grupo Kaltex;

- All references to "Kaltex Energía" are to Kaltex Energía S.A. de C.V., a subsidiary of Grupo Kaltex;

- All references to "Kaltex Fibers" are to Kaltex Fibers, S.A. de C.V., a subsidiary of Kaltex Textiles;

- All references to "Kaltex Home" are to Kaltex Home, S.A. de C.V., a subsidiary of Kaltex Textiles;

- All references to "Kaltex Internacional" are to Kaltex Internacional, S.A. de C.V., a subsidiary of Grupo Kaltex;

- All references to “Kaltex Textiles” are to Kaltex Textiles, S.A. de C.V., a subsidiary of Grupo Kaltex;

- All references to “Manufacturas Kaltex” are to Manufacturas Kaltex S.A. de C.V., a subsidiary of Kaltex Textiles;

- All references to “Mexican pesos” or “Ps.” are to the lawful currency of the United Mexican States, which we refer to as “Mexico;”

- All references to the “New Notes Indenture” are to the indenture to govern the New Notes to be entered into on the Settlement Date, among the Company, the Guarantors, The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent (the “Trustee”), and Banco Monex, S.A. Institución de Banca Múltiple, Monex Grupo Financiero, as collateral agent (the “Collateral Agent”);

- All references to “NAFTA” are to North American Free Trade Agreement established on January 1, 1994;

- All references to “NCPI” are to the National Consumer Price Index (Índice Nacional de Precios al Consumidor), published from time to time by the Mexican National Institute of Statistics and Geography (“INEGI”), Banxico in the Federal Official Gazette (*Diario Oficial de la Federación*) or any index that may replace it;

- All references to “Official Exchange Rate” are to the exchange rate of Mexican pesos for U.S. Dollars determined by Banxico for the payment of obligations denominated in foreign currency payable in Mexico, as published in the Federal Official Gazette (*Diario Oficial de la Federación*) one business day after the relevant determination date;

- All references to “Revman International” are to Revman International, Inc. a former subsidiary of Kaltex Internacional;

- All references to “SEC” are to the U.S. Securities and Exchange Commission;

- All references to “Security Documents” are to the meaning set forth in the Description of the New Notes;

- All references to “Subsidiary” are to the meaning set forth in the Description of the New Notes;

- All references to “TIIE” are to Tasa de Interés Interbancaria de Equilibrio;

a. All references to “U.S. Dollars” or “$” are to dollars of the United States of America, which we refer to as the “United States” or “U.S.;”

- All references to “U.S. GAAP” are to the generally accepted accounting principles as applied in the United States;

- All references to “UDIs” are to Unidades de Inversión, a unit account value of which, in Mexican pesos, is indexed to inflation on a daily basis by reference to the NCPI;

- All references to the “Unrestricted Subsidiary” or “Unrestricted Subsidiaries” are the meaning set forth in the Description of the New Notes;

- All references to “USMCA” are to the United States–Mexico–Canada Agreement, which entered into force on July 1, 2020 and which replaced NAFTA, which took effect in 1994; and

- All references to “we,” “us,” “our,” “Company,” “Grupo Kaltex” or “Kaltex” are to Grupo Kaltex, S.A. de C.V., and its consolidated subsidiaries, unless the context otherwise requires.

PRESENTATION OF FINANCIAL INFORMATION AND OTHER INFORMATION

Financial Information

This Exchange Offer Memorandum includes (i) our audited consolidated financial statements as of December 31, 2021 and 2020 and for the years then ended, and as of December 31, 2020, 2019 and 2018 and for the years then ended, and the accompanying notes (the "Audited Financial Statements") and (ii) our unaudited condensed consolidated interim financial statements as of June 30, 2022 and December 31, 2021 and for the six-month periods ended June 30, 2022 and 2021, and the accompanying notes (the "Unaudited Interim Financial Statements"). The Audited Financial Statements, Unaudited Interim Financial Statements and other financial information of Grupo Kaltex included in this Exchange Offer Memorandum are expressed in Mexican pesos. The financial statements have been prepared in accordance with IFRS. Unless otherwise stated, the financial information included in this Exchange Offer Memorandum is derived from our Audited Financial Statements and Unaudited Interim Financial Statements.

Financial Information prepared under IFRS may differ from U.S. GAAP. In making an investment decision, you must rely upon your own examination of our company, the terms of the Exchange Offer and the financial information included herein. We urge you to consult your own advisors regarding the difference between IFRS and U.S. GAAP and how these differences might affect the financial information included in this Exchange Offer Memorandum.

The Audited Financial Statements were audited by Galaz, Yamazaki, Ruíz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited ("Deloitte"), independent auditors, as stated in their report appearing therein.

Rounding Adjustments

Certain figures included in this Exchange Offer Memorandum have been rounded for ease of presentation. Percentage figures included in this Exchange Offer Memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this Exchange Offer Memorandum may vary from those obtained by performing the same calculations using the figures in our financial statements included elsewhere in this Exchange Offer Memorandum. Certain other amounts that appear in this Exchange Offer Memorandum may not sum due to rounding.

Non-GAAP Financial Measures

A body of generally accepted accounting principles is commonly referred to as "GAAP." A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. The non-GAAP financial measures may not be comparable to other similarly titled measures employed by other companies and may have limitations as analytical tools. These measures may not be fit for isolated consideration or as a substitute for analysis of our operating results as reported under IFRS. Non-GAAP financial measures and ratios are not measurements of our performance or liquidity under IFRS. Thus, they should not be considered as alternatives to operating profit, profit for the period, any other performance measures derived in accordance with IFRS, any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

In this Exchange Offer Memorandum, we present "EBITDA," which is a non-GAAP financial measure. For a description of how we define EBITDA and a reconciliation of our EBITDA to consolidated net income, see "Summary Financial Data and Other Information" and "Selected Financial Data and Other Information." EBITDA is not a recognized term or measure of financial performance under, U.S. GAAP or IFRS and does not purport to be and should not be considered as an alternative to net income, as determined on a consolidated basis in accordance with IFRS, as an indicator of our operating performance or as net resources generated by operating activities as a measure of our liquidity.

We included EBITDA because we believe that it enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. We believe that EBITDA can be useful to facilitate comparisons

between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, that have little or no bearing on our operating performance, (iii) income tax and (iv) discontinued operations. We also believe EBITDA is a useful basis for comparing our results with those of other companies because it presents operating results on a basis unaffected by capital structure, taxes and such other non-cash charges and non-operational income and expenses. However, EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability, such as financial expenses and income taxes, depreciation, capital expenditures and associated charges. Further, companies define EBITDA in different ways and caution must be used in comparing this measurement to EBITDA of other companies. You should review EBITDA together with consolidated income from continuing operations and net resources generated from (used in) operating activities, financing activities and investing activities, when trying to understand our operating performance.

EXCHANGE RATES

This Exchange Offer Memorandum contains translations of certain Mexican peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. Furthermore, the exchange rate for purposes of the convenience translation is not necessarily the same rate we used in preparing our financial statements, which means that U.S. Dollar-denominated items, including U.S. Dollar-denominated expenses and liabilities, may have been translated into Mexican pesos using one exchange rate (or an average exchange rate) and have been re-translated into U.S. Dollars for the convenience of the reader using the convenience translation exchange rate.

Unless otherwise indicated, the exchange rate used for purposes of convenience translations is:

- With respect to statement of financial position data included in this Exchange Offer Memorandum, the Official Exchange Rate on December 31, 2021 (Ps.20.58 to US$1.00) or on June 30, 2022 (Ps.19.98 to US$1.00), as applicable; and with respect to financial information other than statement of financial position data included in this Exchange Offer Memorandum, in order to more closely approximate the figures presented in U.S. Dollars and particularly given the volatility in exchange rates in recent years, we utilized the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021 and for the six-month periods ended June 30, 2022, as applicable.

- The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the Official Exchange Rate, all expressed in nominal Mexican pesos per US$1.00.

	High	Low	Average[(1)]	Period End[(2)]
Year				
2019	20.13	18.77	19.26	18.85
2020	25.12	18.57	21.50	19.95
2021	21.82	19.58	20.282	20.58
Month				
January 2022	20.74	20.30	20.48	20.74
February 2022	20.86	20.24	20.48	20.65
March 2022	21.38	19.96	20.60	19.99
April 2022	20.57	19.74	20.04	20.57
May 2022	20.57	19.60	20.11	19.60
June 2022	20.67	19.50	19.97	19.98
July 2022	20.94	20.13	20.53	20.38
August 2022	20.63	19.86	20.13	19.99
September 2022	20.36	19.80	20.06	20.31
October 2022	20.19	19.84	20.02	19.84
November 2022 (through November 14, 2022)	19.83	19.39	19.60	19.39

Source: Banxico

(1) The average exchange rate means the average of the exchange rate on each day during the relevant period

(2) As published by Banxico as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on the period end date.

WHERE YOU CAN FIND MORE INFORMATION

We are not subject to the information requirements of the Exchange Act. To permit compliance with Rule 144A under the Securities Act in connection with resales of Notes, we will be required under the New Notes Indenture, upon the request of a holder of Rule 144A New Notes or Regulation S New Notes (during the restricted period, as defined in the legend included under "Transfer Restrictions of New Notes"), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act, unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or file information with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Ingenieros Militares No. 2, Colonia Empleado Municipal, Naucalpan de Juárez, Estado de México C.P. 53380, México.

We will make available to the holders of the New Notes, at the corporate trust office of the Trustee at our cost, copies of the New Notes Indenture as well as this Exchange Offer Memorandum, including a review of our operations, and copies in English of our annual audited consolidated financial statements and our quarterly unaudited consolidated financial statements.

Application will be made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in and the listing and quotation of the New Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Exchange Offer Memorandum. Approval-in-principle from, and admission of the New Notes to the Official List of, the SGX-ST and quotation of the New Notes on the SGX-ST are not to be taken as an indication of the merits of the Exchange Offer, the Company, its subsidiaries, their respective associated companies, their respective joint venture companies or the New Notes. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with the listing of the New Notes, and to furnish to it all such information as the rules of the SGX-ST may require in connection with the listing of the New Notes.

Our corporate offices are located at Ingenieros Militares No. 2, Colonia Empleado Municipal, Naucalpan de Juárez, Estado de México C.P. 53380. Our corporate website address is http://www.kaltex.com/. We do not incorporate the information available on or accessible through our corporate website into this Exchange Offer Memorandum and you should not consider it part of this Exchange Offer Memorandum or otherwise rely on it in connection with your evaluation of your participation in the Exchange Offer or otherwise invest in the New Notes.

Application will be made to the SGX-ST for permission to deal in and the listing and quotation of the New Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Exchange Offer Memorandum. Approval-in-principle from, and admission of the New Notes to the Official List of, the SGX-ST and quotation of the New Notes on the SGX-ST are not to be taken as an indication of the merits of the Exchange Offer, the Company, its subsidiaries, their respective associated companies, their respective joint venture companies or the New Notes. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with the listing of the New Notes, and to furnish to it all such information as the rules of the SGX-ST may require in connection with the listing of the New Notes.

Our corporate offices are located at Avenida Ingenieros Militares No. 2, Colonia Industrial Naucalpan, Naucalpan de Juárez, Estado de México C.P. 53370, México. Our corporate website address is http://www.kaltex.com/. We do not incorporate the information available on or accessible through our corporate website into this Exchange Offer Memorandum and you should not consider it part of this Exchange Offer Memorandum or otherwise rely on it in connection with your evaluation of an investment in the New Notes.

FORWARD-LOOKING STATEMENTS

This Exchange Offer Memorandum includes forward-looking statements. These statements relate to our future prospects, developments and business strategies and are identified by our use of terms and phrases such as "anticipate," "believe," "could," "would," "will," "estimate," "expect," "intend," "may," "plan," "predict," "project," "goals," "target," "strategy" and similar terms and phrases, and may include references to assumptions. These statements are contained in the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry," "Business" and other sections of this Exchange Offer Memorandum.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global economic, business, market and regulatory conditions, without limitation, and the following:

- if Grupo Kaltex or any of its subsidiaries (including any guarantors of the Existing Notes) were declared bankrupt or to becomes subject to concurso mercantil proceedings in Mexico or proceedings under the U.S. Bankruptcy Code in the United States, including in the event the Exchange Offer is not completed;

- changes in economic, political, social and other conditions in Mexico, the United States and elsewhere as a result of the pandemic caused by the coronavirus identified as SARSCoV- 2 that causes the disease known as COVID-19 ("COVID-19");

- the ongoing impact of the COVID-19 pandemic and of other pandemics on our business and on our results of operations, financial situation and cash flows, as well as our ability to timely and efficiently implement any necessary measures in response to, or to mitigate, the impacts of the COVID-19 pandemic on our business, operations, cash flows, prospects, liquidity and financial condition;

- our history of net losses and the possibility we will experience losses in the future;

- trade barriers, including tariffs or import taxes and changes to existing trade policies or changes to, or withdrawals from, free trade agreements, including the USMCA, to which Mexico is a party and which as of July 1, 2020 replaced NAFTA;

- statements about our future economic performance or that of Mexico or other countries in which we operate;

- risks related to Mexico's social, political or economic environment;

- risks related to the global social, political or economic environment, including the recent Russia-Ukraine crisis;

- increases in the prices of commodities we use in the manufacture of our products, such as cotton;

- increases in raw material costs and energy costs;

- competition and loss of market share;

- risks related to our competitive position;

- foreign currency exchange fluctuations including those related to the U.S. Dollar against the Mexican peso;

- changes in our relationships with customers and suppliers;

- risks related to our business, strategy, expectations about growth in demand for our products and services and to our business operations, financial condition and results of operations;

- factors affecting our customers, including changes in consumer spending habits or preferences and the buying power of our customers;
- our ability to enhance or expand our retail network;
- our access to funding sources, and the cost of the funding;
- changes in regulatory, administrative, political, fiscal or economic conditions, including fluctuations in interest rates and growth or diminution of the markets in which we operate;
- risks associated with market demand for and liquidity of the New Notes;
- our inventory management proficiency;
- the loss of any of our licensing, franchise or distribution agreements;
- our ability to correctly implement our strategy;
- our inability to renew or refinance our loans;
- risks inherent in international operations;
- the impact of any natural disasters on our ability to operate or to deliver products to our customers;
- increased capital expenditures as a result of technological, environmental or other changes;
- performance of financial markets and our ability to refinance our financial obligations when they come due on favorable terms or at all, including our short-term debt;
- our ability to service our debt;
- loss of key personnel and our ability to hire, develop and retain talented employees;
- our ability to generate new sources of revenue and to maintain current revenue levels;
- changes in the policies of central banks and/or foreign governments;
- risks inherent in international operations, such as trade barriers, currency fluctuations, changes in duties and royalties, expropriation and nationalization;
- terrorist and organized criminal activities as well as geopolitical events;
- disruption of our supply chain;
- our ability to comply with, and changes to, rules and regulations affecting exports;
- the implementation of exchange controls in any of the jurisdictions where we operate;
- our ability to successfully identify, complete and integrate acquisitions or achieve anticipated synergies, including as a result of our ability to comply with, or changes to, rules and regulations, and their interpretation, affecting acquisitions or other business combinations we may undertake in the future;
- our ability to obtain regulatory approvals, including antitrust approvals in connection with acquisitions; and other factors described under “Risk Factors” and elsewhere in this Exchange Offer Memorandum.

Should one or more of these factors or situations materialize, or should the underlying assumptions prove to be incorrect, the actual results may differ considerably from those that are described, foreseen, considered, estimated, expected, predicted or intended in this Exchange Offer Memorandum.

These forward-looking statements speak only as of the date of this Exchange Offer Memorandum and we undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events or otherwise. Additional factors affecting our business emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Although we believe that the plans, intentions and expectations reflected in or suggested by such forward looking statements are reasonable, we cannot assure you that those plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward-looking statements attributable to us or to the persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

MARKET AND INDUSTRY DATA

Market data and other statistical information used throughout this Exchange Offer Memorandum are generally based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our estimates, which are derived from our review of internal surveys, as well as calculations based on figures derived from independent sources. Although we believe these sources are reliable, and our calculations fairly reflect the metrics that we are seeking to measure, we have not independently verified the information and cannot guarantee its accuracy or completeness.

In addition, in many cases, we have based certain statements contained in this Exchange Offer Memorandum regarding our industry and our position in the industry on certain assumptions concerning our customers and competitors. These assumptions are based on our experience in the industry and our own investigation of market conditions. We cannot assure you as to the accuracy of any such assumptions, and such assumptions may not be indicative of our position in our industry.

ENFORCEABILITY OF CIVIL LIABILITIES

The Company and the majority of our New Notes Guarantors are incorporated or formed under the laws of Mexico, with their principal places of business in Naucalpan de Juárez, Estado de México. All of our directors, executive officers and controlling persons named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws.

No treaty exists between the United States and Mexico for the reciprocal enforcement of foreign judgments. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements were met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy; *provided* that U.S. courts would grant reciprocal treatment to Mexican judgments. Additionally, there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated, in whole or in part, on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws.

SUMMARY

This summary highlights certain information contained in this Exchange Offer Memorandum and may not include all the information relevant to you. For a more complete understanding of our business, you should read the following summary together with the more detailed information appearing elsewhere in this Exchange Offer Memorandum, including that set forth under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and our annual audited consolidated financial statements and the notes thereto included elsewhere in this Exchange Offer Memorandum. The terms "our companies," "we," "our," "us" or similar terms refer to Grupo Kaltex, S.A. de C.V. and its consolidated subsidiaries. Unless the context indicates otherwise, references to "Issuer" or the "Company" are to Grupo Kaltex, S.A. de C.V., on a standalone basis.

Company Overview

We believe we are one of the largest textile companies in Mexico and in the Americas, measured by volume. We also estimate that we are among the largest textile companies in the world measured by volume. To our knowledge, we are one of the few vertically integrated textile companies in the Americas and in the world. We are engaged in the design, manufacturing and commercialization of yarn, fabric, apparel and home products. We believe we are currently one of the top producers of denim in the world and one of the top purchasers of cotton in the Americas.

Our business commenced operations in 1925 by six brothers of the Kalach family, who began selling and buying textile products in Mexico. After more than 97 years, the Company continues to be controlled and operated by members of the Kalach family.

We offer a variety of textile products, ranging from yarn, piece dye and denim to garments, apparel and textile home products. We also manufacture eiderdowns, sheets, coverlets, bedspreads and bed accessories as well as kitchen accessories, including dishcloths, potholders, gloves, and carpets. We offer a full production package in apparel (including design, fabric development, pattern making, cutting, sewing, finishing, labeling, packaging, distribution and shipping) with an annual capacity of approximately 165 million meters of fabric.

Although a substantial portion of our production and confection operations are located in Mexico, we also have production and confection facilities in Nicaragua and Colombia (though currently not in operation). Through our distribution offices in the United States, Mexico and Colombia and through our sales agent in Europe and our sales broker in Asia, we have sales in and/or exports into North America, Central America, South America, Europe and Asia.

Our Company is organized in two main business units: Kaltex Textiles and Kaltex Internacional.

- **Kaltex Textiles** is primarily engaged in the manufacture of textile products through three subsidiaries, Manufacturas Kaltex, Kaltex Apparel and Kaltex Home. Manufacturas Kaltex is engaged in the manufacturing and distribution of different textile products, including the production of yarn and fabric. Kaltex Apparel is engaged in the manufacturing and distribution of finished garments. Kaltex Home produces textile home products. Our production capability includes plants with wash, permanent press and dye capabilities for finished garments. For the six-month period ended June 30, 2022, Kaltex Textiles accounted for 72% of our total consolidated sales (before intercompany eliminations), as compared to 58% for the same period six-month period in 2021. For each of the years ended December 31, 2021 and 2020, Kaltex Textiles accounted for 68% and 60% of our total consolidated sales (before intercompany eliminations).

- **Kaltex Internacional** is primarily engaged in the distribution in the United States of fabric and denim (through our subsidiary Kaltex America), the production of fabric for the fashion industry in Colombia (through our subsidiary Coltejer), and the distribution of textile products throughout South America (through our subsidiary Kaltex Colombia). For the six-month period ended June 30, 2022, Kaltex Internacional accounted for 28% of our total consolidated sales (before intercompany eliminations) as compared to 42% for the six-month period ended June 30, 2021. For the year ended December 31, 2021 and 2020, Kaltex Internacional accounted for 32%, and 40%, respectively of our total consolidated sales (before intercompany eliminations).

Key Financial Highlights

The following table presents key consolidated financial data for the periods indicated:

	For the six-month periods ended June 30,		
	2022[1]	2022	2021[9]
	(US$)	(Mexican pesos)	
	(Amounts in thousands except for ratios or percentages)		
(Consolidated)			
Net sales[3]	331,050	6,714,354	6,960,625
Net sales[4]	547,936	11,113,234	9,540,147
EBITDA[5]	24,331	493,472	1,701,358
% of net sales in Mexico	45%	45%	39%
% of net sales in the U.S.	48%	48%	57%
% of net sales in other markets[6]	7%	7%	4%
EBITDA margin[7]	7.3%	7.3%	24.4%
Total Financial Debt / EBITDA[8]	5.8x	5.8x	2.0x

	For the years ended December 31,			
	2021[2]	2021[9]	2020[9]	2019[9]
	(US$)	(Mexican pesos)		
	(Amounts in thousands except for ratios or percentages)			
(Consolidated)				
Net sales[3]	657,153	13,328,371	11,461,907	14,078,291
Net sales[4]	1,030,769	20,906,060	17,467,261	21,263,452
EBITDA[5]	96,675	1,960,756	857,605	1,183,052
% of net sales in Mexico	45%	45%	34%	42%
% of net sales in the U.S.	51%	51%	58%	46%
% of net sales in other markets[6]	4%	4%	8%	12%
EBITDA margin[7]	15%	15%	7.5%	8.4%
Total Financial Debt / EBITDA[8]	2.3x	2.3x	7.5x	5.3x

(1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the six-month periods ended June 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) After intercompany eliminations.

(4) Before intercompany eliminations.

(5) EBITDA means net income from continuing operations plus income tax expense, interest expense, depreciation and amortization and exchange (gain) loss. For the six-month period ended June 30, 2021, EBITDA includes before tax capital gains of Ps.955 million from the sale of Revman International and Ps.65 million from the repurchase of Grupo Kaltex's 8.875% Senior Notes due 2022. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures."

(6) Includes sales to South America, Europe and Asia.

(7) Calculated by dividing EBITDA (as defined in footnote 5 above) by net sales (after intercompany eliminations).

(8) Indebtedness to EBITDA ratio means total indebtedness to EBITDA for the four most recent full fiscal quarters. For the six-month period ended June 30, 2022 and 2021, the ratio considers the four most recent full fiscal quarters, amounting an EBITDA of Ps.753,170 and Ps.2,281,143, respectively.

(9) On January 4, 2021, Grupo Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.). The sale of Grupo Milano qualifies as a discontinued operation as it represented a major segment of the Company's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the periods ended December 31, 2021, 2020 and 2019 and June 30, 2022 present the results associated with Grupo Milano as discontinued operations. Additionally, the assets and liabilities of Grupo Milano have been presented as held for sale as of December 31, 2020. With the resources obtained from this sale, the Company reduced the outstanding principal amount of the Existing Notes from US$320 million to US$260 million.

Our Competitive Strengths

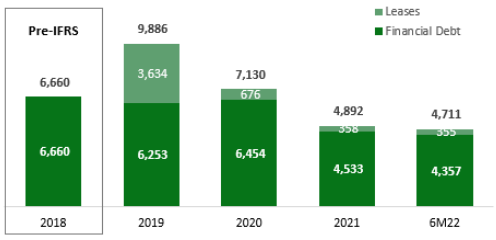
We believe that the following competitive strengths differentiate us from our competitors and contribute to our continued success:

- ***Leading Market Position in Highly Attractive Markets with High Barriers to Entry.*** We believe we are one of the largest textile manufacturers in the Americas, offering a full production package in apparel (including design, fabric development, pattern making, cutting, sewing, finishing, labeling, packaging, distribution and shipping) with an annual capacity of approximately 165 million meters of fabric at production facilities in Mexico and Nicaragua. Since we operate in strategic locations, we believe our long-standing presence and knowledge of local markets protect us from competitors that do not have this same experience and expertise. As of the date of this Exchange Offer Memorandum, the time-to-market of textile products has become critical to retailers as fashion and logistics trends have become more dynamic. Our main markets are Mexico and the United States, where we have a competitive advantage over Asian manufacturers in terms of time-to-market and freight cost and supply reliability. Our San Juan del Rio and Tepeji del Rio manufacturing facilities are strategically located in the center of Mexico, one of the most attractive regions to serve the majority of our clients in the country.

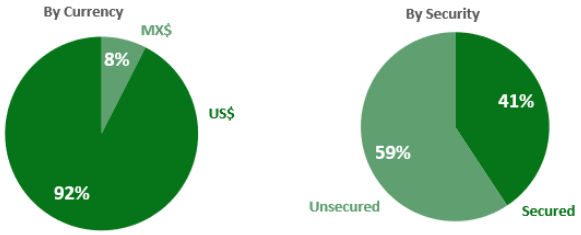
- ***Vertically Integrated Business.*** We believe we are uniquely positioned in the global textile markets compared to our competitors due to our integration in multiple aspects of the production process, from energy generation to the manufacture of yarn and fabrics, to the manufacture of end products, including finished garments and home goods. Our integrated business model provides us with the ability to control costs at various points of the supply chain and to maintain profit levels while meeting price expectations of our customers. We believe that one of our key advantages of being integrated is to efficiently manage our costs, inventory and working capital to quickly respond and adapt to changes in raw material costs and other market demands. Our business model also allows us to coordinate the timely delivery of raw materials or finished goods in every step of the supply chain and to save on transportation costs and other costs associated with distribution channels. Kaltex Logistics, our in-house centralized logistics processing operation, provides us with logistics services in each of our processes, including transportation, warehousing, logistics, inter-service movement from our plants to the Kaltex Logistics Consolidation Center, coordination of import and export movements through ports and the northern border of Mexico, foreign deliveries to customers, inventory management and coordination of air cargo in connection with import and export activities, among others. We believe access to a centralized logistics unit makes our costs competitive and helps us ensure the accurate and timely deliveries of our products, which results in higher customer satisfaction. Our integration also enables us to ensure quality control at every level of production, capture profit margins, and control our cash flows with stability and reduced cyclicality. Our vertically integrated business model includes every step in the textile manufacturing process with the aim to provide a significant competitive advantage. First, Kaltex Textiles covers the manufacturing and commercialization of yarns and fabrics. This business unit has ample capacity to meet high demand and offer a wide range of prints and finishes. Second, the Kaltex Home business segment covers the design, manufacturing and commercialization of bed linens and home products. It comprises all steps from the designing to the shipping of standardized and tailor-made products. Third, the Kaltex Apparel business segment comprises the manufacturing and commercialization of casual clothing. It offers ample capacity and speed to market and covers all steps from designing to shipping. Finally, the Kaltex America business segment covers the distribution of Kaltex's products to North America. It benefits from the proximity of Kaltex manufacturing facilities to the U.S. and also from the long-term client relationships of the group. These four business segments create synergies, resulting in higher profitability, more control over the value chain, shorter lead times and better service to clients. The sales breakdown exclusively considering these four segments for the first six months of 2022, including intercompany sales, is as follows: Yarn & Fabric 56%, Home 2%, Apparel 10% and Kaltex America 32%.

- ***New Business Model.*** We recently completed a strategy of value-creating capital investment by focusing on our business units with higher growth and EBITDA margins, which also have been the core business of our Company. Our goal is to focus on increasing growth, profitability, deleveraging and cash flow generation. We want to focus on our core business, which is production of yarn and fabric, home and apparel products and distribution, and we are refocusing future capex exclusively in these businesses. For this reason, we have sold our retail business (Grupo Milano), our brand business (Revman International) and are in the process of selling our fibers business (Kaltex Fibers). We decided to focus on the export market, particularly in yarn, fabric and apparel, with an increased allocation of our sales to the United States (our sales to the United States, excluding Revman International sales in 2021, have increased to 48% for the first six months of 2022, as compared to 34% for the same period in 2021), while reducing our levels of indebtedness (our outstanding debt in dollar terms as of June 30, 2022 has decreased by 43% compared to December 31, 2017). We believe our new business model and foreign exchange risk management policy will allow us to closely match revenues and assets denominated in U.S. Dollars with expenses and liabilities denominated in Mexican pesos, which is intended to act as a natural hedge for our business.

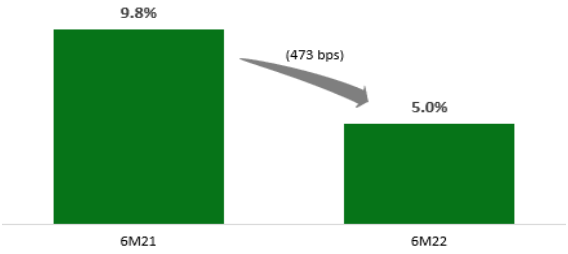
Total Debt Evolution



Total Debt Breakdown



- ***Strategic Focus on Improving Profitability.*** Our new business model is oriented to significantly improve profit margins at all levels. This has been part of the recent strategy of assessing the profitability of our different stock keeping units (SKUs), improving inventory management, and modernizing machinery to improve efficiency and minimize materials waste. We are focusing on reducing "Segundas," expecting to reduce the number of discounts to 4.0% (from 7.0 in 2018). The recent sale of Revman International and Grupo Milano have contributed to a recent increase in margins. We have also shown resiliency throughout the COVID-19 pandemic by maintaining positive profit margins. Our recent strategy is focused on cost efficiency. We have been able to decrease operating expenses as a percentage of revenues from 9.8% for the six-month period ended June 30, 2021 to 5.0% for the six-month period ended June 30, 2022.



- ***Profitable Industry Dynamics with Strong Growth Prospects.*** We believe that the Mexican and international apparel markets show room for growth in the medium and long term due to growing demand in the apparel market as a result of new fashion trends. We believe the general historic and current trends in Mexico and, in particular in the United States, are toward increasing discretionary spending as the economies recover from the impact of COVID-19 containment measures. International brands have increased manufacturing operations in Mexico and in Nicaragua rather than in China due to proximity to the United States, which translates into the ability to deliver small quantities in short cycles in response to customer preferences and quickly changing fashion trends.

- ***State-of-the-Art Manufacturing Capabilities and Technologies and Focus on Quality and Innovation.*** We have seven state-of-the-art facilities operating in Mexico and Nicaragua. Our facilities are strategically located with access to high quality and efficient labor, close to suppliers and most importantly close to our clients in the United States and Mexico, a key factor that reduces transportation costs and allows for just-in-time delivery. We believe our manufacturing facilities are among the most advanced and modern in the industry. Since 2017, we have invested approximately US$24 million in modernizing our production process using industry standard capabilities and state-of-the-art technology. We believe that we possess the most up-to-date, integrated technology available in our industry. Our unique integration model in Latin America helps us reduce costs and increase efficiency of production processes. For example, we have a water treatment plant that is sufficiently large and modern to process all the water required in each step, from dyeing of fabric to the production of finished garments in a single place, which results in economies of scale and is an advantage over our competitors that are not integrated. Similarly, our energy plant has allowed us to reduce energy consumption and maintenance costs while increasing productivity. We believe that our world-class manufacturing capabilities position us among the few companies that are able to provide customers with a full range of services that include fabric production, design, cutting, tailoring, finishing and packing services. Our close communication and well-established relationships allow us to adjust costs and supply for fashion, low cost and volume-oriented clients. Our operations and strict internal policies and procedures are designed, managed, measured and constantly improved upon to maintain high levels of product quality and productivity. We hold an ISO 9001 quality management certification, an ISO 14001 environmental management certification and the OEKO-TEX 100 standard.

- ***Strategically Positioned in Latin America to Capture Market Opportunities in North America.*** Our global production capabilities in Mexico and Nicaragua allow us to efficiently offer a wide range of high-quality products at competitive rates, which allows us to take advantage of new market opportunities, such as the following:

    - In Mexico, we have a skilled labor force, sufficient installed capacity and some of the most modern machinery in the region, which allows us to satisfy consumer demand. In addition, the USMCA provides a stable regulatory framework to ensure supply reliability.

    - In Nicaragua, we have a highly qualified labor force at a cost of approximately 25% less than in Mexico. In addition, the region is close to our customers' distribution centers. We also benefit from the free trade treaty with the United States (CAFTA), which allows us to export products from Nicaragua to the United States without being subject to tariffs.

    - We serve the Mexican and U.S. markets, where we consider to have a competitive advantage versus Asian manufacturers in terms of time to market, freight costs and supply reliability. The proximity of Mexico and Nicaragua to the U.S. translates into lower freights costs and lower lead times, both critical for retailers. Also, a stronger U.S. market due to economic growth, the recent trend of U.S. companies relocating locally, the COVID-19 supply chain logistics disruption, and the recent commercial disputes between China and the U.S. may help us strengthen our position as a textile leader in the region.

- ***Product and Client Diversity and Focusing on our Core Businesses.*** Our sales are diversified both by product type and by geographic market. For the six-month period ended June 30, 2022, 48% of our sales were made into the United States, 45% into Mexico, and 7% into other regions, compared with the six-month period ended June 30, 2021, which were made 57% into the United States, 39% into Mexico, and 4% into other regions. For the years ended December 31, 2021 and 2020, the distribution of sales was as follows: 51% and 58% into the United States, 45% and 34% into Mexico, 4% and 8% into other regions. We offer a diversified product mix, ranging from yarn, piece dye and denim to garments, apparel and textile home products.

  We believe this diversification positions us to grow and compete by capturing market opportunities and effectively mitigating adverse consequences from regional events, including economic downturns. Our manufacturing presence in Mexico and Nicaragua and our competitive advantages in labor force, capacity and our close proximity to various markets, allow us to access such markets without reliance on third parties

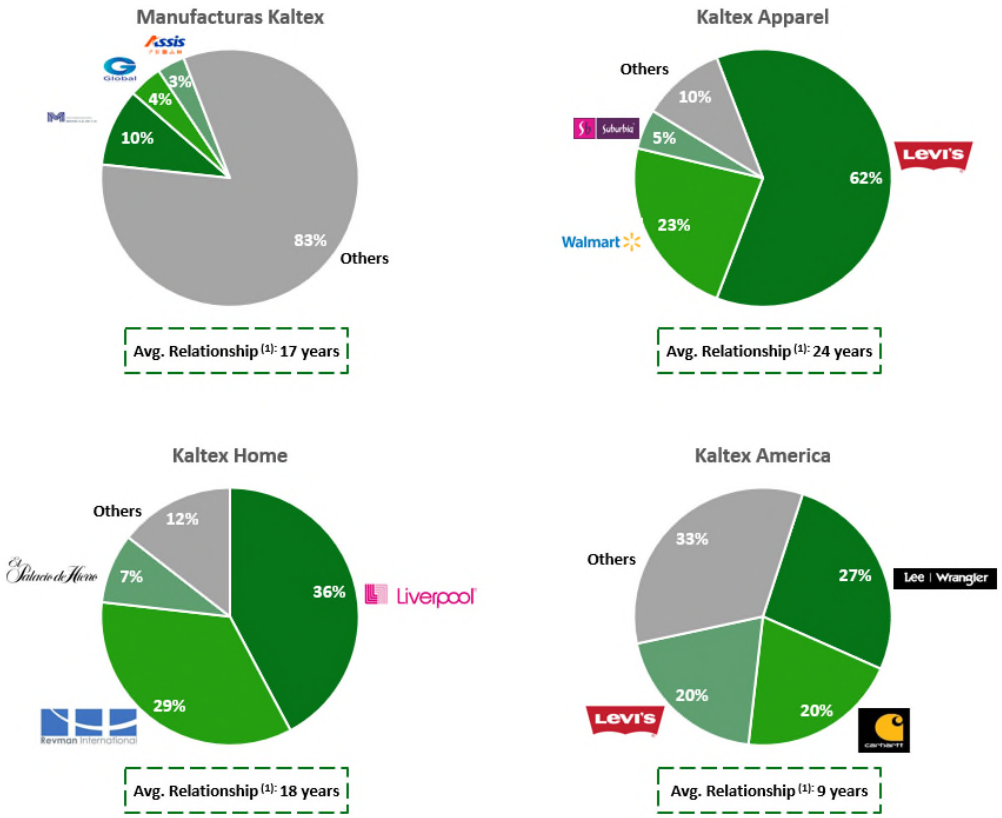
since our centralized logistics and processing unit enables us to coordinate deliveries on a timely basis to the distribution centers of our clients. Throughout our history, we have successfully expanded our operations into new products of the textile industry.

- ***Comprehensive Risk Management Strategy.*** We have a solid risk management strategy divided in three parts. The first is the natural foreign exchange hedge. Our percentage of revenue and costs are negatively correlated in terms of currency, resulting in a natural hedge. Our total sales breakdown by currency for the first six months of 2022 was: 54% in U.S. Dollars, 45% in Mexican pesos, and 1% in other currencies. On the other hand, the total cost breakdown by currency for the same period was 48% concentrated in Mexican peso denominated costs and the remaining 52% in dollar denominated costs.

  Secondly, we have a robust energy strategy. Our in-house natural gas cogeneration plant covered approximately 54% of the energy we used in the first six months of 2022. Furthermore, our goal is to invest in modernizing our manufacturing sites and machinery to improve their efficiency.

  Finally, we have a proven cotton management strategy. We close only 75%-80% of customers' total orders from customers to traders, reducing inventory and making us more efficient. We then fix order volume with traders when customer orders are received, and approximately 15 days later, we fix prices with traders and customers, locking the transaction's profit margin. This process has helped us reduce our exposure to cotton price fluctuations.

- ***Long-Term Customer Relationships.*** We believe we have well-established relationships and a strong reputation with leading premium international and domestic customers. Our global platform and reach, as well as our experience and long-standing presence in the textile and retail sectors are the principal foundation on which our strong relationships with our customers are based. We believe we are well positioned to continue to provide our goods and services to our current customers by renewing existing contracts or entering into new contracts with them. Our top global customers include Levi Strauss & Co., Kontoor, Carhartt, VF Jeanswear, Distribuidora Moyel, Flynn Enterprises, Liverpool, and Aramark, among others. Our top ten clients represent 52.2% of our net sales (excluding intercompany sales) and have been doing business with us on a simple average of 14.7 years. Additionally, our customer base is well diversified across business units, which translates into long lasting relationships with key customers. As of June 30, 2022, the average commercial relationships of key customers by business unit were as follows (beginning on the following page):



(1) Arithmetic average only considering main customers.

- ***Strong Shareholders, Experienced Management Team and Proven Philosophy and Culture.*** Our extensive experience in the global textile industry provides the opportunities and platform to leverage our know-how and technology to expand our business. We believe we have one of the most experienced management teams in the textile industry. Our key executives have extensive knowledge of manufacturing processes and the development of new technologies, due in large part to our 97 years of experience in the textile industry. Our management's ability to adapt to an evolving macroeconomic environment is evidenced by our solid performance through difficult economic and operating environments, such as the pandemic period. We believe that our team has substantial strength in critical operational areas and has demonstrated success in reducing costs and improving processes through business cycles.

- ***Sustainability.*** We have a strong commitment to environmental, social and corporate governance. Our guiding principles are the UN Sustainable Development Goals ("SDGs"). We currently comply with six SDGs: Clean Water and Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Responsible Consumption and Production, Climate Action, and Partnerships for the Goals. Our San Juan Del Rio water treatment plant has a capacity of 240 liters of water treated per second and our Altamira natural gas cogeneration plant has an installed capacity of 40 MW. Through these projects, we have reduced our annual fresh water consumption and our greenhouse gas emission by approximately 24% and 32%, respectively, since 2017. Additionally, we comply with the US Cotton Trust Protocol and we are members of the Higg Index which is a Sustainable Apparel Coalition.

Our Strategy

We intend to leverage the aforementioned competitive strengths to improve our margins and continue generating strong and sustainable cash flows by implementing the following strategic initiatives:

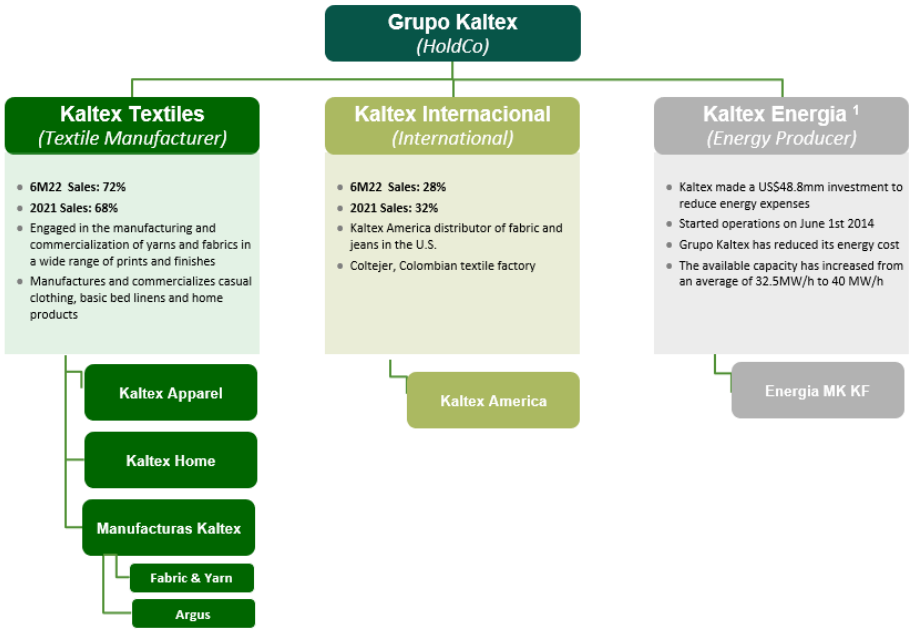
- ***Capital Investments in Improved Productivity and Energy Production.*** Through increased capital expenditures and investments, we maintain state-of-the-art technology across all of our operations to improve efficiency and volume. From 2017 to 2020 we invested US$24 million in modernizing our production machinery. In addition, since 2014 we invested US$48 million in our own energy generation through Kaltex Energía, of which US$7 million were used to increase the average energy supply from 32.5MW/h in 2017 to 40MW/h, which represents up to 65% of our current energy needs and has allowed us to reduce energy consumption and maintenance costs while increasing productivity. We have reduced our energy costs as a percentage of revenue from 9.1% in 2014 to 6.2% for the first six months of 2022, which has in turn improved our margins.

- ***Increased Participation in the United States.*** Some of our competitors have reduced production due to increases in costs and lack of an integrated model like ours, while some others have ceased operations after the COVID-19 pandemic. This has allowed us to increase our participation in the Mexican and United States markets, particularly with respect to denim, piece dye and apparel. For example, from December 2017 to June 2022, our sales in the United States increased from 42% to 48%, and we expect to strengthen our integrated model to increase our participation in such markets. We also expect to increase clients' cross-selling and focus on offering more products to those customers that only buy fabric. As demand grows, we become more competitive due to our recent capital investments and the quality, prices, and volume of our products.

- ***Expansion of Operations into Other Geographic Markets.*** We are one of the largest integrated manufacturing textile companies in the Americas. In order to maintain this strong market position, it is necessary to remain vigilant in order to identify potential opportunities to expand our operations into other attractive and complementary geographical markets with strong growth prospects. As we have done in the past, from time to time we will continue to analyze and consider such opportunities to support our growth into new markets.

Corporate Structure

The following chart sets forth our principal subsidiaries and lines of business.



(1) Kaltex Energía is a subsidiary of Grupo Kaltex and therefore appears separately from Kaltex Textiles in this chart; however, for accounting purposes Kaltex Energía's results are included in those of Kaltex Textiles as it is vertically integrated into Kaltex Textiles' operations.

Corporate Governance

We are a private company. Nonetheless, we strive and conform to the highest standards of corporate governance.

Grupo Kaltex constantly holds independent committees including, amongst others, the executive, commercial, apparel & home operations, new developments, finance, manufacturing technologies, human resources, and manufacturing committees.

Corporate Information

Grupo Kaltex is a sociedad anónima de capital variable, a variable capital corporation organized under the laws of Mexico. Our corporate offices are located at Avenida Ingenieros Militares No. 2, Colonia Industrial Naucalpan, Naucalpan de Juárez, Estado de México C.P. 53370, México.

Recent Developments

Sale of Kaltex Fibers

As part of our efforts to focus on our core business, which is production and distribution of yarn and fabric, home and apparel products, we plan to sell our subsidiary Kaltex Fibers, which could impact our results of operations. We anticipate that the reduction in revenue from the sale of this business would be offset by lower operating expenses, thus increasing our EBITDA margin.

In accordance with the terms of the New Notes Indenture as described under "Description of the New Notes—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock," we will be required to use the proceeds from this sale to repay, prepay or purchase outstanding Existing Notes or make capital expenditures as permitted by the New Notes Indenture.

Rationale for the Exchange Offer

We did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022 and do not currently have the means to repay such amount or any future amounts that may become payable under the Existing Notes. Therefore, pursuant to the Exchange Offer, we are seeking to exchange up to US$118 million of our Existing Notes for New Notes that will mature on September 30, 2025. We believe that we will be able to pay interest and principal on the New Notes when due.

The exchange of the Existing Notes for the New Notes pursuant to the Exchange Offer is subject to the Minimum Tender Condition and the Financing Condition, which we may assert or waive in full at our sole discretion, subject to the terms of the Transaction Support Agreement. See "The Exchange Offer—Background and Purpose."

The principal objective of the Exchange Offer is to refinance up to US$118 million in aggregate principal amount of the Existing Notes. We believe that the completion of the Exchange Offer is critical to resolving our constrained liquidity and ensuring our continued viability.

We entered into a Transaction Support Agreement between us, the Existing Guarantors, the New Notes Guarantors, and the TSA Supporting Noteholders, whereby the TSA Supporting Noteholders agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. In addition, we entered into Additional Holder Letter Agreements between us, the Existing Guarantors, the New Notes Guarantors, and each of the Additional Supporting Noteholders, whereby the Additional Supporting Noteholders agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. The Supporting Noteholders have agreed with us to support the Exchange Offer, subject to certain conditions, including the (i) funding of the Concurrent Loan Facility (as defined herein), (ii) as of the Expiration Date, Additional Supporting Noteholders having validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) US$22.0 million in aggregate principal amount of Existing Notes, and (iii) the repayment in full on the Settlement Date of any Existing Notes that are not exchanged in the Exchange Offer as described in "The Exchange Offer—Background and Purpose." The Transaction Support Agreement also contemplates a contractual commitment from certain Supporting Noteholders to purchase up

to US$20,000,000 in principal amount of New Notes (such commitment to be reduced on a dollar-for-dollar principal amount basis to the extent that more than US$98,000,000 principal aggregate amount of New Notes would be issuable in the Exchange Offer pursuant to valid tenders of Existing Notes in the Exchange Offer), at a purchase price payable in U.S. Dollars of 100% of the principal amount thereof, pursuant to the Funding Commitment Letter.

Concurrent Loan Facility

On November 3, 2022, our subsidiary Manufacturas Kaltex, as borrower, entered into a secured term loan facility with Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo (Bancomext), as lender, Inmobiliaria Los Mejía, S.A. de C.V., Inmobiliaria Barrientos, S.A. de C.V., Inmobilara Emilio Castelar, S.A. de C.V., Inmobiliaria Mago, S.A. de C.V., Inmuebles Tochtli- Centeotlm and Kaltex Inmobilaria S.A. de C.V., as collateral guarantors (*garantes hipotecarios*), and the Company as joint obligor (obligado solidario) (the "Concurrent Loan Facility").

We are required to use the entire gross proceeds of the Concurrent Loan Facility to fund the repayment of all outstanding Existing Notes not exchanged for New Notes pursuant to the Exchange Offer. Therefore, if the Exchange Offer is not consummated, the Concurrent Loan Facility will not be available to us.

The Concurrent Loan Facility will be fully drawn into escrow prior to the Settlement Date. Pursuant to the terms of the Escrow Agreement (as defined below), the gross proceeds of the Concurrent Loan Facility will be used, together with available cash on hand to fund the Accrued Interest Payment, the Exchange Premium, the repayment in full of the Existing Notes not exchanged for New Notes pursuant to the Exchange Offer, the Subsequent Commitment Fee, and the payment of certain fees and expenses relating to the Exchange Offer.

The Concurrent Loan Facility will mature on the date that is the tenth anniversary of the Settlement Date (except that the maturity of the Concurrent Loan Facility shall automatically be adjusted to the maturity date of the New Notes, unless the New Notes are refinanced or the maturity thereof is extended for additional successive terms of 2 years up to a total 10 years from the Settlement Date). The Concurrent Loan Facility will be secured with collateral provided by the shareholders of the Company and certain other real property of Manufacturas Kaltex. None of the collateral securing the New Notes will secure the Concurrent Loan Facility.

In terms of the Concurrent Loan Facility, Manufacturas Kaltex will be required to maintain cash reserves for up to two quarters of interest and principal payments under the Concurrent Loan Facility (the "Interest Reserve"); provided that, during the first quarter of the term of the Concurrent Loan Facility, the Interest Reserve is only required to hold reserves for up to two quarters of interest payments. In addition, we will unconditionally guarantee the Concurrent Loan Facility and the Concurrent Loan Facility will constitute senior unsubordinated general indebtedness.

The terms of the Concurrent Loan Facility provide that the aggregate principal amount of the Concurrent Loan Facility is $100,000,000 (or its equivalent in Mexican pesos), which is to be disbursed: (i) at least 60% in Mexican pesos, and (ii) up to 40% in U.S. Dollars. Since the gross proceeds of the Concurrent Loan Facility will be used to fund the repayment of a portion of the Existing Notes in U.S. Dollars, we will procure that the portion of the Concurrent Loan Facility that is borrowed in Mexican pesos shall be converted into U.S. Dollars, so that the gross proceeds of the Concurrent Loan Facility available to us in U.S. Dollars is at least equal to $100,000,000.

The rate of interest payable on the portion of the Concurrent Loan Facility borrowed in Mexican pesos is equal to 91-day TIIE (the Equilibrium Interbank Interest Rate published by the Bank of Mexico) plus 2.85 basis points. The rate of interest payable on the portion of the Concurrent Loan Facility borrowed in U.S. Dollars is equal to 3-month SOFR (the Secured Overnight Financing Rate) plus 6.25 basis points.

The Concurrent Loan Facility provides for quarterly payments of principal and interest according to an amortization schedule. In addition, there is a cash sweep provision requiring Manufacturas Kaltex to prepay principal under the Current Loan Facility in the event that Manufacturas Kaltex's cash flow exceeds certain thresholds.

Repayment of the Outstanding Existing Notes upon Consummation of the Exchange Offer

On the Settlement Date, and as a condition to the consummation of the Exchange Offer pursuant to the terms of the Transaction Support Agreement, any Existing Notes not exchanged pursuant to the Exchange Offer (including

any Existing Notes that were tendered but not accepted as a result of proration) will be redeemed in full. As required under the Existing Notes Indenture, the repayment in full of the Existing Notes will include a payment of accrued and unpaid interest from, and including, October 11, 2022 (the date on which the last interest payment was made by Grupo Kaltex) to, but excluding, the Settlement Date.

Funding of the Transactions Contemplated by the Exchange Offer and the Transaction Support Agreement

As of the date of this Exchange Offer Memorandum, assuming that (i) US$ 118 million in aggregate principal amount of Existing Notes are exchanged for New Notes pursuant to the Exchange Offer, and (ii) the Settlement Date occurs on fifth business day following the scheduled Expiration Date set forth in this Exchange Offer Memorandum, we estimate that consummation of the transactions contemplated by the Exchange Offer and the Transaction Support Agreement (including all amounts required to be paid pursuant thereto) shall require Grupo Kaltex to make cash payments in an aggregate amount of approximately US$108.0 million. Grupo Kaltex shall apply the US$100 million of gross proceeds of the Concurrent Loan Facility towards the making of such cash payments, with the remaining amount to be funded by Grupo Kaltex from cash on hand. As of the date of this Exchange Offer Memorandum, we estimate that the remaining amount that Grupo Kaltex will be required to fund with cash on hand is equal to approximately US$8.0 million.

Escrow Agreement

As contemplated by the Transaction Support Agreement, in order to effect the settlement of the transactions contemplated by the Exchange Offer and the Transaction Support Agreement, prior to the Expiration Date, the Company, the Existing Guarantors, and the New Notes Guarantors shall enter into an escrow agreement with certain other parties (the "Escrow Agreement"). Manufacturas Kaltex shall, and the Company shall procure that Manufacturas Kaltex shall, deposit, or cause to be deposited, in escrow with a depositary bank, the gross proceeds from the Concurrent Loan Facility in an amount of not less than U.S.$100.0 million. To the extent that any New Notes are to be purchased by the New Money Notes Funding Parties pursuant to the Funding Commitment Letter, the purchase price payable for such New Notes sold for cash shall be deposited in escrow with a depositary bank. The Company shall be required to deposited in escrow with a depositary bank an amount equal to the balance of the amount required to make all the payments contemplated by the Exchange Offer and the Transaction Support Agreement, including all amounts required to repay the Existing Notes that are not exchanged for New Notes in the Exchange Offer. The release of the relevant amounts held by the escrow agent or depositary bank pursuant to the Escrow Agreement shall be made only upon satisfaction of certain escrow release conditions.

Preliminary Financial Information for the Nine-Month Period Ended September 30, 2022

Our final results as of and for the nine-month period ended September 30, 2022 are not yet available as of the date of this Exchange Offer Memorandum. We expect to finalize our financial statements as of and for the nine-month period ended September 30, 2022 after the Exchange Offer is consummated on the Settlement Date. Based on preliminary information available to us as of the date of this Exchange Offer Memorandum, we expect to continue to experience a negative impact from the pandemic. We caution you that our preliminary expectations for the results for the nine-month period ended September 30, 2022, as set out below, are not a guarantee of future performance or outcomes and that final results as of and for the nine-month period ended September 30, 2022 may differ materially from the expectation described above. The expectation described above is based on our reasonable estimates and preliminary information available as of the date of this Exchange Offer Memorandum. They reflect our management's current views and may change as a result of our management's review of results and other factors, including a wide variety of significant uncertainties. Our final results for the nine-month period ended September 30, 2022 are subject to the finalization and closing of our accounting books and records (which have yet to be performed) as of the date of this Exchange Offer Memorandum. Therefore, we cannot provide any assurances that the final results for the nine-month period ended September 30, 2022 will be consistent with the results for the nine-month period ended September 30, 2021.

The below financial information comprises preliminary results as of and for the nine-month period ended September 2022 that represent our estimates only based on currently available information and does not present all necessary information for an understanding of our financial condition and results of operation as of and for the nine-month period ended September 30, 2022. While the preliminary results described below have been prepared in good

faith and are based on information available at the time of preparation, as we complete our financial close process for the nine-month period ended September 30, 2022, we may be required to revise this information when included as part of a period covered by future interim or annual financial statements.

Therefore, no assurance can be made that final results will not change as a result of our management's review of results and other factors, and the preliminary results presented below should not be viewed as a substitute for our full interim financial statements and the related notes thereto. This preliminary financial information has been prepared by and is the responsibility of our management. Galaz, Yamazaki, Ruíz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, our independent registered public accounting firm, has not audited, reviewed, compiled or performed any procedures with respect to this preliminary financial information or the accounting treatment thereof and does not express an opinion or any other form of assurance with respect thereto. It is possible that we or Galaz, Yamazaki, Ruíz Urquiza, S.C., member of Deloitte Touche Tohmatsu Limited, may identify items that require us to make adjustment to the financial information set forth below and those changes could be material. Except as required by applicable law, we do not intend to update or otherwise revise the financial information set forth below prior to completion of our financial closing procedures and auditor's audit procedures in relation to our financial statements for the year ended December 31, 2022. Accordingly, undue reliance should not be placed on this preliminary financial information. These preliminary estimates are not necessarily indicative of any future period and should be read together with "Risk Factors" and "Forward-Looking Statements" included elsewhere in this Exchange Offer Memorandum.

The following table presents our consolidated financial information as of and for the periods indicated:

	For the nine-month periods ended September 30,		
	2022[2]	**2022**	**2021**[3]
	(US$)	**(Mexican pesos)**	
Consolidated Statements of Profit and Loss[1]	**(Amounts in thousands)**		
Net sales	486,979	9,870,568	10,250,388
Cost of sales	441,549	8,949,747	8,654,082
Gross profit	45,430	920,821	1,596,306
Sales expenses	9,707	196,752	337,602
Administrative expenses	15,831	320,877	512,833
Other (income) expenses, net	9,388	190,277	(906,231)
Operating income	10,504	212,915	1,652,102
Interest expenses	20,294	411,335	611,948
Interest income	(109)	(2,210)	(2,928)
Exchange loss (gain), net	6,613	134,037	(335,532)
Income (loss) before income taxes	(16,293)	(330,247)	707,550
Income tax expense	10,066	204,031	319,506
Net consolidated (loss) income	(26,359)	(534,278)	388,044

	As of September 30,	
	2022[2]	**2022**
	(US$)	**(Mexican pesos)**
Consolidated Statements of Financial Position Assets[1]	**(Amounts in thousands)**	
Current assets:		
Cash and cash equivalents	18,389	373,401
Accounts receivables, net	90,343	1,834,515
Due from to related parties	—	4
Inventories, net	91,545	1,858,918
Prepaid expenses	55,974	1,136,605
Total current assets	256,252	5,203,443
Non-current assets:		
Property, plant and equipment, net	429,124	8,713,799

Investment properties	344	6,986
Deferred income tax	1,787	36,279
Other assets, net	9,460	192,097
Total non-current assets	440,715	8,949,161
Total assets	696,967	14,152,604
Liabilities and stockholders' equity:		
Current liabilities:		
Bank loans	—	—
Current portion of long-term debt	217,998	4,426,664
Accounts payable to suppliers	93,319	1,894,937
Due to related parties	4,661	94,642
Other accounts payable and accrued liabilities	119,366	2,423,850
Total current liabilities	435,344	8,840,093
Non-current liabilities:		
Long-term debt:		
Accounts payable to related parties	133,014	2,700,975
Other accounts payable and accrued liabilities	35,126	713,259
Deferred income tax	62,642	1,271,999
Total non-current liabilities	230,781	4,686,233
Total liabilities	666,125	13,526,326
Stockholders' equity:		
Capital stock	218,449	4,435,829
(Accumulated deficit) retained earnings	(266,920)	(5,420,078)
Controlling interest	(48,471)	(984,249)
Non-controlling interest	79,313	1,610,527
Total stockholders' equity	30,842	626,278
Total liabilities and stockholders' equity	696,967	14,152,604

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors — Risks Relating to the New Notes and Guarantees — Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.306 per U.S. Dollar, the Official Exchange Rate in effect on September 30, 2022, with respect to statement of financial position data and (ii) Ps.20.269 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the nine months period ended September 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) On June 30, 2021, the holding company Kaltex North America, Inc., a subsidiary of Grupo Kaltex sold its subsidiary Revman International to a third party for US$66 million, of which US$40 million was paid in June 2021 and the remainder was paid in full in September 2021. Using part of the proceeds from this sale, Grupo Kaltex purchased and cancelled an aggregate principal amount of US$40 million of the Existing Notes during the third quarter of 2021.

Summary of the Exchange Offer

The Exchange Offer	The Company is offering each Holder of the Existing Notes, upon the terms and subject to the conditions set forth in this Exchange Offer Memorandum, to exchange up to US$118 million aggregate principal amount of its outstanding Existing Notes for (i) up to US$118 million principal amount of New Notes, and (ii) cash as described below. The Exchange Offer is subject to the terms and conditions set forth in this Exchange Offer Memorandum. See "The Exchange Offer."
Consideration for the Exchange Offer.....	Subject to the Exchange Offer Cap, for each US$1,000 in principal amount of Existing Notes, tendering Holders of Existing Notes whose Existing Notes are accepted for exchange by us will receive, on the Settlement Date, (i) US$1,000 in principal amount of New Notes, (ii) the Accrued Interest Payment, and (iii) the Exchange Premium. See "The Exchange Offer—Terms of the Exchange Offer" in this Exchange Offer Memorandum and "Description of the New Notes."
Proration	In the event that the aggregate principal amount of Existing Notes validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) in the Exchange Offer exceeds the Exchange Offer Cap, then tenders of Existing Notes shall be accepted for exchange by us on a prorated basis, with the prorated aggregate principal amount of each Holder's validly tendered Existing Notes accepted for exchange rounded down to the nearest US$1,000. If proration causes the Company to return less than the minimum denomination to any Eligible Holder, then the Company will, at its option, either accept all or reject all of the tendered amount of such Eligible Holder's Existing Notes such that either no Existing Notes from such Eligible Holder are accepted for exchange or at least the minimum denomination of such Existing Notes is accepted for exchange. Any Existing Notes validly tendered and not accepted for exchange as a result of such proration shall be redeemed in full on the Settlement Date.
Withdrawal of Tenders	An Eligible Holder may withdraw the tender of such Eligible Holder's Existing Notes at any time prior to the Withdrawal Deadline by submitting a notice of withdrawal to the Information and Exchange Agent using ATOP procedures or upon compliance with the other procedures described under "The Exchange Offer—Withdrawal of Tenders." Any Exchange Notes tendered prior to the Withdrawal Deadline that are not validly withdrawn prior to the Withdrawal Deadline may not be withdrawn on or after the Withdrawal Deadline, and Existing Notes validly tendered on or after the Withdrawal Deadline may not be withdrawn, in each case, except as required by applicable law.
Minimum Denominations.	The Existing Notes may be tendered only in denominations of US$200,000 principal amount and integral multiples of US$1,000 in excess thereof, and the acceptance of Existing Notes for exchange may be subject to proration as described below. The New Notes will only be issued in minimum denominations of US$1,000 and any integral multiple of US$1.00.
Additional Interest	All payments by the Company with respect to the exchange of Existing Notes, including the Accrued Interest Payment and the Exchange Premium, will be made

	without withholding or deduction for or on account of any taxes, duties, levies, imposts, assessments or other governmental charges imposed by Mexico or the jurisdictions within or through which payment of the Existing Notes is made, unless required by law, in which case, subject to certain exceptions and limitations set forth in the Existing Notes Indenture, the Company will pay such additional interest ("Additional Interest") as may be required so that the net amount received by the Eligible Holders of the Existing Notes in respect of the Accrued Interest Payment and the Exchange Premium, with respect to the exchange of the Existing Notes, after any such withholding or deduction, will not be less than the amount that would have been received in the absence of any such withholding or deduction. Any reference in this Exchange Offer Memorandum to the Accrued Interest Payment shall be deemed to include any such Additional Interest.
Procedures for Holders Exchanging Existing Notes.....	For an Eligible Holder to validly tender Existing Notes pursuant to the Exchange Offer, such Eligible Holder must arrange for its Existing Notes to be delivered through ATOP prior to the Expiration Date pursuant to the procedures for book-entry transfer described under "The Exchange Offer—Procedures for Holders Exchanging Existing Notes" (and a confirmation of such tender must be received by the Information and Exchange Agent, including an Agent's Message, as defined herein). All Existing Notes are held through DTC. If an Eligible Holder of Existing Notes desires to participate in the Exchange Offer, such Eligible Holder must instruct such Eligible Holder's bank, broker, dealer, trust company or other custodial entity (pursuant to the procedures of the custodial entity) to tender its Existing Notes on such Eligible Holder's behalf.
Conditions	Notwithstanding any other statement in this Exchange Offer Memorandum, the obligation to accept for exchange any Existing Notes validly tendered (and not validly withdrawn) in the Exchange Offer is conditioned upon the satisfaction or waiver (subject to the terms of the Transaction Support Agreement), prior to the Settlement Date, of the Minimum Tender Condition and the Financing Condition. There can be no assurance that such conditions will be satisfied or waived. Subject to the terms of the Transaction Support Agreement, the Company reserves the right to waive the conditions to the Exchange Offer and, subject to certain limitations, to extend, terminate, cancel or otherwise modify or amend the Exchange Offer in any respect. See "The Exchange Offer—Conditions to the Exchange Offer."
Extensions, Termination and Amendments.....	The Company expressly reserves the right, at any time or from time to time, regardless of whether or not the conditions set forth in "The Exchange Offer—Conditions to the Exchange Offer" shall have been satisfied, subject to applicable law and the terms of the Transaction Support Agreement, (a) to extend the Expiration Date, (b) to amend the Exchange Offer in any respect or (c) to terminate the Exchange Offer prior to the Expiration Date and return the Existing Notes exchanged pursuant thereto, in each case by giving written notice of such extension, amendment or termination to the Information and Exchange Agent.
Delivery of New Notes to Holders of Existing Notes	Upon satisfaction or waiver (subject to the terms of the Transaction Support Agreement) of the conditions to the Exchange Offer, the Company will exchange Existing Notes, and on the Settlement Date, the Company will issue, or cause to be issued, New Notes. The Exchange Offer is subject to certain conditions, which we may waive in full or in part in our sole discretion, but subject to the terms of

	the Transaction Support Agreement, including the Minimum Tender Condition and the Financing Condition. See "The Exchange Offer—Terms of the Exchange Offer."
Tax Considerations.....	See "Risk Factors—Risks Relating to the Exchange Offer." For a discussion of tax considerations that may be relevant to Holders of Existing Notes, see "Taxation—U.S. Federal Income Tax Considerations" and "Taxation—Mexican Federal Tax Considerations."
Information and Exchange Agent.....	D.F. King & Co., Inc. is serving as Information and Exchange Agent in connection with the Exchange Offer.
Further Information.....	Requests for additional copies of this Exchange Offer Memorandum and any other documents referred to in this Exchange Offer Memorandum should be directed to the Information and Exchange Agent at one of its addresses set forth on the back cover page of this Exchange Offer Memorandum. The telephone number of the Information and Exchange Agent is U.S. (888) 541-9895. The e-mail address of the Information and Exchange Agent is kaltex@dfking.com.
Termination Right.....	If the Settlement Date has not occurred on or before December 20, 2022, the Requisite Amount of Exchanging Noteholders (as defined in the Transaction Support Agreement) shall have the right to terminate the Exchange Offer in its entirety upon written notice to the Company. "Requisite Amount of Exchanging Noteholders" means the Exchanging Noteholders, that own, as of the date of determination, two-thirds (2/3) of the outstanding principal amount of Existing Notes held by all Exchanging Noteholders.
Eligibility to Participate in the Exchange Offer.....	We have not registered the Exchange Offer or the issuance of the New Notes under the Securities Act or any other laws. **Subject to the laws of the jurisdictions in which Eligible Holders reside, only Eligible Holders who have duly completed and returned the Eligibility Letter certifying that they are either (1) QIBs or (2) non-U.S. persons (as defined in Rule 902 under the Securities Act) located outside of the United States, and who are non-U.S. qualified offerees, are authorized to receive this Exchange Offer Memorandum and to participate in the Exchange Offer.** In order to participate in the Exchange Offer, Eligible Holders will be required to make certain acknowledgments, representations, warranties and undertakings to us, the Dealer Manager and the Information and Exchange Agent. See "The Exchange Offer—Holders' Representations, Warranties and Undertakings.

Summary of the New Notes

The following is a brief summary of certain terms of the New Notes. For a more complete description of the terms of the New Notes, see "Description of the New Notes" in this Exchange Offer Memorandum. Terms that are capitalized but undefined in this summary shall have the meaning ascribed to such terms in the "Description of the New Notes."

The Issuer	Grupo Kaltex, S.A. de C.V.
The New Note Guarantors	On the Settlement Date, the following will constitute the New Note Guarantors: Kaltex America, Inc.; Kaltex Apparel, S.A. de C.V.; Kaltex Comercial, S.A. de C.V.; Kaltex Home, S.A. de C.V.; Kaltex Internacional, S.A. de C.V.; Kaltex Textiles, S.A. de C.V., and Manufacturas Kaltex, S.A. de C.V. In addition, the Company will cause any Person, other than Coltejer S.A. and its Subsidiaries, that (A) is or becomes a Restricted Subsidiary of the Company after the Settlement Date, and (B)(1) as of the last date of the most recent Semiannual Period individually represents more than 15% of the Consolidated Assets as of such date, or (2) for the two preceding Semiannual Periods, individually represents more than 15% of the Consolidated Sales for such period (including, without limitation, a result of any Permitted Investments, to become a New Note Guarantor, and execute a supplemental New Note Indenture and deliver an Officers' Certificate and an Opinion of Counsel satisfactory to the Trustee within ten business days of the delivery of financial statements pursuant to "Certain Covenants—Reports to Holders" for the most recent fiscal quarter in the applicable Semiannual Period.
Maturity	September 30, 2025.
Interest Payments	Interest on the New Notes will accrue at the rate of 14.500% per annum and will be payable semi-annually in arrears on each April 11 and October 11, commencing on April 11, 2023. Payments will be made to the persons who are registered Holders at the close of business on April 9 and October 9, respectively, immediately preceding the applicable interest payment date. Interest on the New Notes will accrue from, and including, the Settlement Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of New Notes with unpaid and accrued interest to the date of redemption will not affect the right of Holders of record on a record date to receive interest due on an interest payment date. Interest on the New Notes shall be payable entirely in cash on each interest payment date, except that the Company may, at its sole discretion, in respect of any interest payment date (other than at maturity), elect to pay interest of up to 1.500% per annum for such period as PIK Interest (i.e. interest on the New Notes of at least 13.000% per annum must be paid for such period in cash) and the remaining interest amount for such period shall be paid in cash.
Collateral	The New Notes shall, with effect from the Settlement Date, be secured by first priority security interests pursuant to the Existing Mortgages Amendment Agreement, Existing Pledge Amendment Agreements, the New Mortgage Agreements and the Collateral Asset Sale Accounts Pledge Agreement, each of

which shall be governed by Mexican law and subject to the jurisdiction of Mexican courts, over the following assets:

(1) twelve plots of land and the buildings thereon located in Tlautla, Tepeji del Río, Hidalgo, Mexico;

(2) five plots of land and the buildings thereon located in San Juan del Rio, Querétaro, Mexico;

(3) five plots of land and the buildings thereon located in Tlaxinacalpan, Tepeji del Río, Hidalgo, Mexico;

(4) machinery located in Tlautla, Tepeji del Río, Hidalgo, Mexico;

(5) machinery located in San Juan del Rio, Querétaro, Mexico;

(6) machinery located in Tlaxinacalpan, Tepeji del Río, Hidalgo, Mexico; and

(7) the Collateral Asset Sale Accounts.

The first priority security interests in the Collateral and all other terms related to the Collateral will be set forth in the Security Documents.

If, after the Settlement Date, the Company or any New Note Guarantor acquires any Acquired Material Asset (including any acquisition by means of a merger or consolidation with or into the Company or a Restricted Subsidiary) or any Replacement Collateral Assets, the Company shall, within 10 Business Days following the acquisition thereof, cause such Acquired Material Assets to secure the New Notes.

Priority..... The New Notes will be secured by first priority security interests as set forth in the Security Documents. In order for the first priority security interests in the Collateral to secure the obligations under the New Notes and the New Notes Indenture, on the Settlement Date, the parties to the Existing Mortgages Amendment Agreement, Existing Pledge Amendment Agreements, the New Mortgage Agreements and the Collateral Asset Sale Accounts Pledge Agreement will enter into such Security Documents, in each case to be executed before a Mexican notary public on the Settlement Date. The New Notes Indenture requires the Company and the New Note Guarantors to take certain actions in order to procure that the relevant security interests in the Collateral are filed with relevant notaries and registries in order to perfect and register the relevant security interests. See "Description of the New Notes—Collateral." The New Notes and the guarantees of the New Notes Guarantors will be secured obligations of the Company and the New Notes Guarantors which will rank effectively senior to other existing and future unsecured obligations of the Company and the New Notes Guarantors to the extent of the value of the Collateral.

Restricted Subsidiaries ..... On the Settlement Date, all Subsidiaries of the Company (other than Coltejer S.A. and its Subsidiaries) shall be Restricted Subsidiaries. On the Settlement Date, the only Unrestricted Subsidiaries shall be Coltejer S.A. and its Subsidiaries. The Company shall not be permitted to designate any other Unrestricted Subsidiaries at any time.

Optional Redemption.....	The Company may redeem the New Notes, at its option, in whole at any time or in part from time to time, at the redemption price of 101% of the principal amount thereof (plus accrued and unpaid interest on the New Notes redeemed to the redemption date, subject to the rights of Holders of the New Notes on the relevant record date to receive interest due on the relevant interest payment date). Except as set forth above, no penalty, make-whole premium or other amount shall be payable upon an optional redemption pursuant to the provisions described above.
Optional Redemption for Changes in Withholding Taxes	If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any other jurisdiction in which the Company or a New Note Guarantor is incorporated or organized, engaged in business for tax purposes, or resident for tax purposes, or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on and after the date of this Exchange Offer Memorandum, the Company or a New Note Guarantor would be obligated, after taking all reasonable measures to avoid this requirement, to pay any Additional Interest on the New Notes in excess of Additional Interest attributable to a Mexican withholding tax at a rate of 4.9% (see "Description of the New Notes—Additional Interest"), then, at the Company's option, all, but not less than all, of the New Notes may be redeemed at any time at a redemption price, calculated by the Company, equal to 100% of the principal amount thereof (plus any accrued and unpaid interest and any Additional Interest due thereon up to but not including the date of redemption, subject to the rights of Holders of New Notes on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which the Company or, as the case may be, a New Note Guarantor would be obligated to pay such Additional Interest if a payment on the New Notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such Additional Interest remains in effect.
Open Market Purchases....	The Company or any of its affiliates may purchase New Notes in the market or in negotiated transactions at any time (in any manner and at any price); provided that (i) any such purchased New Notes shall not be resold, and (ii) once purchased, such purchased New Notes will not be counted as outstanding in determining the principal amount of New Notes that has given their consent or vote under the New Notes Indenture.
Collateral Asset Sales and Asset Sales.....	The terms of the New Notes provide that the Company and its Restricted Subsidiaries shall be permitted to make Collateral Asset Sales and Asset Sales, subject to certain conditions. The terms of the New Notes provide for permitted uses of the net proceeds from a Collateral Asset Sale or an Asset Sale. In certain circumstances, the Company shall be required to make an Asset Sale Offer or a Collateral Asset Sale Offer pursuant to which the Company would be required to make an offer to purchase a specified aggregate principal amount of New Notes at a purchase price equal to 100% of the principal amount of the New Notes to be purchased, plus accrued and unpaid interest thereon, to the date of purchase.

Change of Control	Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (in integral multiples of U.S.$1.00; provided that the remaining portion of such Holder's New Note will not be less than U.S.$1,000.00) of the Holder's New Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon.
Certain Covenants	The New Notes Indenture contains covenants that will, among other things, limit our and our restricted subsidiaries' ability to, among other things: • incur or guarantee additional indebtedness; • pay dividends, make other distributions to our stockholders, repurchase or redeem our capital stock or make other restricted payments; • prepay the Concurrent Loan Facility; • make certain payments to our direct or indirect shareholders; • sell assets and subsidiary stock; • make loans and investments; • incur liens; • enter into transactions with affiliates; • enter into agreements restricting our restricted subsidiaries' ability to pay dividends; and • consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important qualifications and exceptions. For more information, see "Description of the New Notes—Certain Covenants."
Listing.....	Application will be made to have the New Notes listed and quoted on the Official List of the SGX-ST. For so long as any Notes are outstanding, the Company will use commercially reasonable efforts to obtain and maintain listing of the New Notes on the SGX-ST. Pursuant to the terms of the Transaction Support Agreement, the Company has agreed to list the New Notes on the SGX-ST no later than the business day following the Settlement Date.
Governing Law.....	The New Notes Indenture and the New Notes will be governed by, and construed in accordance with, the law of the State of New York. The Security Documents will be governed by, and construed in accordance with, the law of Mexico and disputes thereunder will be resolved by Mexican courts.
Trustee, Paying Agent, Registrar, and Transfer Agent	The Bank of New York Mellon.

Collateral Agent	Banco Monex S.A., Institución de Banca Múltiple, Monex Grupo Financiero.
Transfer Restrictions	The New Notes have not been registered under the Securities Act or any state securities laws. The New Notes may not be offered or sold except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. For more details, see "Transfer Restrictions of New Notes."
Risk Factors.....	You should carefully consider all of the information in this Exchange Offer Memorandum. See "Risk Factors" in this Exchange Offer Memorandum for a description of certain significant risks in connection with an investment in the New Notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following table provides a summary of our historical consolidated financial data. The summary historical consolidated financial data (i) for the years ended December 31, 2021, 2020 and 2019 have been derived from the Audited Financial Statements prepared in accordance with IFRS and (ii) for the six-month period ended June 30, 2022 and June 30, 2021 have been derived from the Unaudited Interim Financial Statements prepared in accordance with IAS 34. The results from any interim period are not necessarily indicative of the results that may be expected for a full fiscal year. The Audited Financial Statements, Unaudited Interim Financial Statements and other financial information of Grupo Kaltex included in this Exchange Offer Memorandum are expressed in Mexican pesos. The financial statements have been prepared in accordance with IFRS. The financial information included in this Exchange Offer Memorandum is derived from our Audited Financial Statements and Unaudited Interim Financial Statements.

Unless otherwise indicated, the exchange rate used for purposes of the convenience translation is the Official Exchange Rate in effect on December 31, 2021 (Ps.20.58 to US$1.00). These convenience translations should not be construed as representation that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates" for further information regarding the rates of exchange between the Mexican peso and the U.S. Dollar.

	For the year ended December 31,				For the six-month periods ended June 30,		
	2021[2]	2021[4]	2020[4]	2019[4]	2022[3]	2022	2021[4]
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)	
Consolidated Statements of Profit and Loss[1]			(Amounts in thousands)				
Net sales	657,153	13,328,371	11,461,907	14,078,291	331,050	6,714,354	6,960,625
Cost of sales	568,689	11,534,150	9,511,174	12,102,757	298,628	6,056,772	5,745,302
Gross profit	88,464	1,794,221	1,950,733	1,975,534	32,422	657,582	1,215,323
Sales expenses	19,193	389,268	601,999	706,387	4,737	96,069	283,174
Administrative expenses	33,793	685,387	735,293	735,604	11,977	242,915	397,366
Other (income) expenses, net[5]	(39,029)	(791,589)	346,117	(34,009)	1,260	25,557	(936,973)
Operating income	74,507	1,511,155	267,324	567,552	14,448	293,041	1,471,756
Interest expenses	34,220	694,042	1,023,497	1,073,654	14,749	299,139	426,077
Interest income	(158)	(3,200)	(15,755)	(12,996)	(72)	(1,463)	(1,898)
Income (loss) on valuation of derivative financial instruments	—	—	(11,175)	21,526	—	—	—
Exchange loss (gain), net	23,160	469,736	524,132	(347,459)	5,437	110,273	(81,621)
Income (loss) before income taxes	17,285	350,577	(1,253,375)	(167,173)	5,208	105,638	965,956
Income tax expense	20,730	420,437	300,432	177,235	10,620	215,391	429,886
Consolidated net (loss) income from continuing operations	(3,444)	(69,860)	(1,553,807)	(344,408)	(5,411)	(109,753)	536,070
Discontinued operations[4]	—	—	(146,588)	69,017	—	—	—
Net consolidated (loss) income	(3,444)	(69,860)	(1,700,395)	(275,391)	(5,411)	(109,753)	536,070

	As of December 31,				As of June 30,	
	2021[2]	2021[4]	2020[4]	2019[4]	2022[3]	2022[4]
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)
Consolidated Statements of Financial Position Assets[1]		(Amounts in thousands)				
Current assets:						
Cash and cash equivalents	10,967	225,755	180,392	398,730	9,938	198,607
Accounts receivables, net	120,913	2,488,871	2,229,922	2,368,255	143,265	2,863,147
Due from to related parties	116	2,383	228,528	127,745	102	2,040
Inventories, net	90,424	1,861,285	2,189,662	3,624,040	97,472	1,947,971
Prepaid expenses	13,952	287,183	252,187	191,895	14,738	294,548
Assets available for sale[4]	—	—	6,565,571	—	—	—
Total current assets	236,372	4,865,477	11,646,262	6,710,665	265,515	5,306,313
Non-current assets:						
Property, plant and equipment, net	423,497	8,717,270	9,448,742	10,329,507	420,263	8,398,963
Right-of-use asset	16,205	333,567	702,336	3,542,349	16,623	332,207
Investment properties	49,312	1,015,037	1,567,057	1,806,191	49,488	989,008
Deferred income tax	3,737	76,923	384,572	756,074	4,227	84,472
Derivative financial instruments	—	—	—	67	—	—
Other assets, net	181	3,735	24,499	1,461,576	182	3,644
Total non-current assets	492,933	10,146,532	12,127,206	17,895,764	490,783	9,808,294
Total assets	729,305	15,012,009	23,773,468	24,606,429	756,298	15,114,607
Liabilities and stockholders' equity:						
Current liabilities:						
Bank loans	—	—	—	106,425	—	—
Current portion of long-term debt	220,240	4,533,422	81,344	152,233	217,997	4,356,665
Accounts payable to suppliers	81,514	1,677,881	1,932,882	3,097,864	110,050	2,199,343
Lease liability	3,816	78,552	78,232	169,615	3,962	79,172
Due to related parties	23,724	488,339	401,238	369,679	25,588	511,379
Other accounts payable and accrued liabilities	101,424	2,087,720	1,943,257	1,424,571	102,847	2,055,391
Direct employee benefits	6,951	143,076	62,815	79,343	4,907	98,065
Advance payments from customers	2,548	52,448	18,853	7,111	3,445	68,848
Liabilities available for sale[4]	—	—	4,165,941	—	—	—
Total current liabilities	440,218	9,061,438	8,684,562	5,406,841	468,795	9,368,863
Non-current liabilities:						
Long-term debt	—	—	6,372,752	5,994,134	—	—
Accounts payable to related parties	128,518	2,645,423	3,275,993	3,215,381	135,140	2,700,770
Lease liability	13,597	279,872	597,816	3,464,071	13,781	275,408
Retirement employee benefits	27,673	569,630	577,539	545,617	28,843	576,423
Labor obligations	—	—	6,106	13,303	—	—
Deferred income tax	70,855	1,458,473	1,820,521	1,934,253	70,087	1,400,681
Total non-current liabilities	240,643	4,953,398	12,650,727	15,166,759	247,850	4,953,282
Total liabilities	680,861	14,014,836	21,335,289	20,573,600	716,645	14,322,145
Stockholders' equity:						
Capital stock	195,200	4,017,990	4,017,990	4,017,990	201,050	4,017,990
(Accumulated deficit) retained earnings	(187,098)	(3,851,230)	(2,926,080)	(1,775,366)	(212,015)	(4,237,414)
Accumulated other comprehensive income (loss)	(27,051)	(556,823)	14,693	(143,412)	(32,614)	(651,781)

Controlling interest	(18,950)	(390,063)	1,106,603	2,099,212	(43,578)	(870,905)
Non-controlling interest	67,394	1,387,236	1,331,576	1,933,617	83,231	1,663,367
Total stockholders' equity	48,444	997,173	2,438,179	4,032,829	39,653	792,462
Total liabilities and stockholders' equity	729,305	15,012,009	23,773,468	24,606,429	(756,298)	15,114,607

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors —Risks Relating to the New Notes and Guarantees—Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the nine months period ended June 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(4) On January 4, 2021, Grupo Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.), whose principal shareholders are also shareholders of Grupo Kaltex. The sale price of the shares was US$80 million, which were paid in 2021. The sale of Grupo Milano qualifies as a discontinued operation as it represented a major segment of Grupo Kaltex's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020 and 2019 present the results associated with Grupo Milano as discontinued operations. Additionally, the assets and liabilities of Grupo Milano have been presented as held for sale as of December 31, 2020. With the resources obtained from this sale, the Company reduced the outstanding principal amount of the Existing Notes from US$320 million to US$260 million as of June 30, 2021.

(5) On June 30, 2021, the holding company Kaltex North America, Inc., a subsidiary of Grupo Kaltex sold its subsidiary Revman International to a third party for US$66 million, of which US$40 million was paid in June 2021 and the remainder was paid in full in September 2021. Given that Revman International does not represent a major segment of Grupo Kaltex, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date. Using part of the proceeds from this sale, Grupo Kaltex purchased and cancelled an aggregate principal amount of US$40 million of the Existing Notes during the third quarter of 2021.

	For the years ended December 31,				For the six-month periods ended June 30,		
	2021[2]	2021	2020	2019	2022[3]	2022	2021
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)	
Other Financial Information[1]	(Amounts in thousands except for ratios or percentages)						
Operating income	74,507	1,511,155	267,324	567,552	14,448	293,041	1,471,756
EBITDA[4]	96,675	1,960,756	857,605	1,183,052	24,331	493,472	1,701,358
Cash flows from operating activities	75,867	1,538,733	1,445,510	1,576,782	12,671	256,988	5,546,428
Cash flows from investing activities	3,804	77,151	(335,347)	(246,703)	(346)	(7,017)	(4,185,128)
Cash flows from financing activities	(77,597)	(1,573,820)	(1,333,248)	(1,348,474)	(13,654)	(276,932)	(1,432,810)
Net cash flows	(2,074)	42,064	(223,085)	(18,395)	(1,329)	(26,961)	(71,510)
Operating margin	11%	11%	2.3%	4.0%	4.4%	4.4%	21.1%
EBITDA margin[5]	15%	15%	7.5%	8.4%	7.3%	7.3%	24.4%
Capex	(7,283)	(147,709)	(312,866)	(253,627)	(3,856)	(78,203)	(72,444)
Total Financial Debt / EBITDA[6]	2.3x	2.3x	7.5x	5.3x	5.8x	5.8x	2.3x
Net Debt / EBITDA[6]	2.2x	2.2x	7.3x	4.9x	5.5x	5.5x	2.2x
Net Debt / (EBITDA-Capex)[6]	2.4x	2.4x	11.5x	6.3x	6.9x	6.9x	2.5x
EBITDA / Interest Expense[6][7]	2.8x	2.8x	0.8x	1.1x	1.3x	1.3x	2.6x

Reconciliation of Consolidated Net Loss of Continuing Operations to EBITDA

	For the years ended December 31,				For the six-month periods ended June 30,		
	2021[2]	2021	2020	2019	2022[3]	2022	2021
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)	
	(Amounts in thousands except for ratios or percentages)						
Consolidated net (loss) income from continuing operations	(3,444)	(69,860)	(1,553,807)	(344,408)	(5,411)	(109,753)	536,070
Plus: Income tax expense	20,730	420,437	300,432	177,235	10,620	215,391	429,886
Income (loss) before income taxes	17,285	350,577	(1,253,375)	(167,173)	5,208	105,638	965,956
Plus: Exchange loss, net	23,160	469,736	524,132	(347,459)	(5,437)	110,273	(81,621)
Plus: (Income) loss on valuation of derivative financial instruments	—	—	(11,175)	21,526	—	—	—
Plus: Interest income	(158)	(3,200)	(15,755)	(12,996)	(72)	(1,463)	(1,898)
Plus: Interest expenses	34,220	694,042	1,023,497	1,073,654	14,749	299,139	426,077
Plus: Depreciation of right-of-use asset	930	18,865	110,769	98,333	134	2,714	4,011
Plus: Depreciation and Amortization	21,237	430,736	479,512	517,167	9,748	197,717	225,291
EBITDA[4]	96,675	1,960,756	857,605	1,183,052	24,331	493,472	1,701,358

Reconciliation of Net Debt

	As of December 31			As of June 30,		
	2021[1]	2021	2020	2019	2023[3]	2022
	(US$)	(Mexican pesos)		(Mexican pesos)	(US$)	(Mexican pesos)
	(Amounts in thousands)					
Bank loans	—	—	—	106,425	—	—
Current portion of long-term debt	220,240	4,533,422	81,344	152,233	217,997	4,356,665
Long-term debt	—	—	6,372,752	5,994,134	—	—
Total financial debt	220,240	4,533,422	6,454,096	6,252,792	4,356,665	4,356,665
Cash and cash equivalents	10,967	225,755	180,392	398,730	9,938	198,607
Net debt	209,273	4,307,667	6,273,704	5,854,062	208,059	4,158,058

Reconciliation of EBITDA - Capex

	As of December 31			As of June 30,		
	2021	2021	2020	2019	2023[3]	2022
	(US$)	(Mexican pesos)		(Mexican pesos)	(US$)	(Mexican pesos)
	(Amounts in thousands)					
EBITDA[4]	95,256	1,960,756	857,605	1,183,052	24,331	493,472
Capex	(7,176)	(147,709)	(312,866)	(253,627)	(3,856)	(78,203)
EBITDA – Capex	88,080	1,813,047	544,739	929,425	20,779	415,269

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors — Risks Relating to the New Notes and Guarantees— Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other

than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the six-month period ended June 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(4) EBITDA means net income from continuing operations plus income tax expense, interest expense, depreciation and amortization and exchange (gain) loss. For the six-month period ended June 30, 2021, EBITDA includes before tax capital gains of Ps.955 million from the sale of Revman International and Ps.65 million from the repurchase of Existing Notes. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures."

(5) Indebtedness to EBITDA ratio means total indebtedness to EBITDA for the four most recent full fiscal quarters. For the six-month period ended June 30, 2022 and 2021, the ratio considers the four most recent full fiscal quarters, amounting an EBITDA of Ps.753,104 and Ps.2,281,143, respectively.

(6) For the six-month period ended June 30, 2022 and 2021, the ratio considers the four most recent full fiscal quarters, amounting to an interest expense of Ps.567,104 and Ps.863,919.

RISK FACTORS

You should carefully consider the following risk factors, as well as all of the other information presented in this Exchange Offer Memorandum, including our consolidated financial statements and the notes thereto. In general, investing in the securities of issuers in emerging market countries such as Mexico involves certain risks not typically associated with investing in securities of U.S. companies.

The risks and uncertainties described below are not the only risks and uncertainties affecting us or the New Notes. Additional risks and uncertainties that we do not know about or that we currently think are immaterial also may impair our business operations or our ability to make payments on the New Notes and under other existing indebtedness.

This Exchange Offer Memorandum also contains forward-looking statements that involve risks. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including risks faced by us describing this section, and under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." See also cautionary statements regarding "Forward-Looking Statements."

For purposes of this section, when we state that a risk, uncertainty or problem may, could or would have an "adverse effect" on us, we mean that the risk, uncertainty or problem may, could or would have an adverse effect on our business, financial condition, liquidity, results of operations or prospects, except as otherwise indicated or as the context may otherwise require.

RISKS RELATING TO OUR BUSINESS

The COVID-19 outbreak has had, and could have, an adverse impact on our business, results of operations and financial situation.

On March 11, 2020 the World Health Organization declared a global pandemic the COVID-19 disease caused by the SARS-CoV-2. Since then, the world has experienced an unprecedented health issue that resulted in a critical economic disruption. The containment measures taken by the governments around the world, and especially during the second quarter of 2020, have impacted the textile industry in all the countries where we operate.

The containment measures taken by the local governments forced us to close our manufacturing facilities for most of the second quarter of 2020, as well as implement remote work for suitable positions. The closing of our factories had a negative impact on our production and sales, resulting in a temporary reduction of personnel. We also implemented cost and expense reductions, including postponement of non-essential investments. Additionally, most of our customers placed their orders on stand-by during the second quarter of 2020, which negatively affected our sales for that quarter.

We have taken significant measures to ensure safe workspace protocol both in our manufacturing facilities and in our offices and have prioritized the health of our employees, customers, suppliers, and all other stakeholders.

As of the date of this Exchange Offer Memorandum, the extent of the COVID-19 pandemic (including its variants) remains uncertain. New variants or waves of COVID-19 could materialize, which could lead to lockdowns or other restrictions in the countries where we operate, and could have a negative impact in our business, operations and financial situation.

As described in Note 1a to the Audited Financial Statements, the recovery from the COVID-19 pandemic resulted in an increase on sales for the Company; however, our results of operations will depend upon the future state of the pandemic and the measures taken by different governments, as well as the ability of management to generate positive income and liquidity.

We have a history of net losses.

We did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022, and do not currently have the means to repay such amount or any future amounts that may become payable

under the Existing Notes. We believe that by exchanging up to US$118 million of our Existing Notes for New Notes that will mature on September 30, 2025, we will be able to pay interest and principal on the New Notes when due.

We have had net losses in recent years, mainly due to the costs related to dollar denominated debt incurred to finance acquisitions, in addition to projects such as our energy plant, the expansion of a denim plant and purchases of machinery. Exchange rate fluctuations resulted in higher levels of debt when expressed in Mexican pesos and increases in interest payments, which had a negative impact on interest paid and foreign exchange loss, which, in turn, had a direct effect on net losses.

We operate in a very competitive market, in which we have made significant investments to expand and grow our business and enhance our manufacturing capabilities. We are unable to guarantee that our losses will not continue in the future, that we will return to or sustain profitability or that we will be able to raise additional capital for future expansion or acquisitions.

Global economic conditions can negatively affect demand for consumer goods or our cost structure and our business, financial condition, results of operations and cash flows.

Demand for and pricing of our products are subject to economic conditions and other factors present in the various domestic and international markets where our products are sold. The level of demand for our products depends primarily upon the level of consumer demand for fabric, yarn, apparel and home textiles, which is influenced by availability of disposable income and levels of consumer spending in general. The success of our operations is cyclical, and, despite our integration, our operations continue to depend on a number of factors impacting discretionary consumer spending, including general economic conditions, consumer confidence, levels of inflation affecting prices and spending, wages and unemployment, housing prices, consumer debt, interest rates, fuel and energy costs, taxation and political conditions. A downturn in the economy may affect consumer purchases of our products and adversely impact our business, financial condition, growth and profitability.

Beginning in 2020, the COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. Governments in jurisdictions where we operate have taken aggressive measures to slow the spread of COVID-19, including quarantines and lock-downs, restrictions on travel, and closing of businesses and public and private institutions. In addition, governments have imposed a wide variety of consumer protection measures that limit how certain businesses, including textile companies such as us, can operate their businesses and interact with their customers. The virus continues to spread globally and causes significant social and market disruption.

There are a number of consequences of the outbreak and its impact on global economies that could have a material adverse effect on our business.

- The economic slowdown had an adverse impact on our customers' ability to pay for our services.

- We have been required to change or restrict many of our operations, including production and retail operations. We have also experienced supply chain disruptions for handsets and other equipment. This could have an impact on our costs.

- We have implemented policies, including work-from-home policies and social distancing policies, that could limit the efficiency and effectiveness of our operations and our reporting and internal controls.

The extent of the impact of the COVID-19 on the Company's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, and the availability and effectiveness of vaccines. If the COVID-19 outbreak continues to spread, the impact on our operations, our clients, our suppliers and financial markets could materially adversely affect our financial condition or results of operations.

There is uncertainty about the future economic environment and we cannot be sure when the current economic conditions will continue to improve. Although recently some segments of the global economy have experienced a moderate recovery, we believe that the prevailing adverse conditions in certain geographical regions and economic sectors will continue to have a negative impact on our business, financial condition and results of

operations. In the event of an economic downturn or insufficient recovery, the negative effects that such economic and market conditions have on us and other participants in the financial services industry could worsen.

The persistence or worsening of the distortion and volatility of global financial markets could adversely affect us, including our ability to incur necessary indebtedness, raise capital and maintain liquidity on favorable terms or at all. The absence of sources of financing through the capital markets, deteriorations in credit and financing conditions, or an excessive increase in the cost of such financing may have the effect of increasing our cost of capital and force us to increase the prices we charge our customers, which is unlikely to occur immediately or to the required levels. Disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which could make it difficult for us to access debt and equity capital on attractive terms, or at all, impact our ability to fund business activities, repay debt on a timely basis and renew, extend or replace any credit facility prior to its maturity, at all or on terms that are favorable to us. Any such increase in the cost of financing could have a material adverse effect on our profit margins. In addition, our financial results are exposed to market risks, including interest rate and exchange rate fluctuations, which can have a material adverse effect on our financial condition and results of operations.

We benefit from trade treaties and agreements, and changes in such global trade regimes may adversely affect our business, financial conditions and result of operations. See "—Risks Relating to Mexico—Developments in other countries could adversely affect the Mexican economy, our business, financial condition and results of operations."

We are currently operating in a period of economic uncertainty and capital markets disruption, which has been significantly impacted by geopolitical instability, an ongoing military conflict between Russia and Ukraine, and record inflation. Our business, financial condition and results of operations could be materially adversely affected by any negative impact on the global economy and capital markets resulting from the conflict in Ukraine, geopolitical tensions, or record inflation, among others.

U.S. and global markets are experiencing volatility and disruption following the escalation of geopolitical tensions and the start of the military conflict between Russia and Ukraine. The full-scale military invasion of Ukraine by Russian troops in February 2022 and Russia's recent recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine have escalated tensions between Russia and the United States, the North Atlantic Treaty Organization (NATO), the European Union and the United Kingdom. The governments of the United States, the United Kingdom, the European Union, Japan and other jurisdictions have imposed extensive sanctions on certain industry sectors in Russia and the regions of Donetsk and Luhansk and on certain individuals in Russia and abroad. The sanctions announced to date include restrictions on selling or importing goods, services or technology in or from affected regions, travel bans and asset freezes impacting connected individuals and political, military, business and financial organizations in Russia, severing Russia's largest bank from the U.S. financial system, barring some Russian enterprises from raising money in the United States and other markets and blocking the access of Russian banks to financial markets. The United States and other countries could impose wider sanctions and take other actions should the conflict further escalate. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine has led to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions, which has contributed to record inflation globally. We are continuing to monitor inflation, the situation in Ukraine and global capital markets and assessing its potential impact on our business.

There can be no assurance that inflation will not increase further in the future. In particular, strong domestic demand and/or an increase in global or regional economic activity that influences the prices of oil and other commodities and external demand could cause an increase in inflation. Increases in unprocessed food prices and adjustments in tobacco prices, which have contributed to recent increases in inflation, may increase inflation again in the future. In particular, the current hostilities between Russia and Ukraine could exacerbate the present inflationary pressures in the global economy, given the importance of both in the production and supply of key commodities, such as natural gas and wheat. Increases in employment and wage developments, as well as adjustments to administered prices and taxes, could also contribute to increases in inflation. In addition, inflation can result in greater market volatility by causing economic uncertainties and reduced consumption, gross domestic product growth, and consumer confidence. Measures to combat inflation and speculation about possible additional actions to combat inflation may lead to economic uncertainty. Any of these factors could adversely impact us.

Although, to date, our business has not been materially impacted by the ongoing military conflict between Russian and Ukraine, geopolitical tensions, or record inflation, it is impossible to predict the extent to which our operations will be impacted in the short and long term, or the ways in which such matters may impact our business. The extent and duration of the conflict in Ukraine, geopolitical tensions, record inflation and resulting market disruptions are impossible to predict but could be substantial. Any such disruptions may also magnify the impact of other risks described in this Exchange Offer Memorandum.

There is material uncertainty relating to our viability as a going concern.

The Audited Financial Statements have been prepared assuming that we as a Company will continue as a going concern. As discussed in Note 1a to the Audited Financial Statements, the declaration of the COVID-19 pandemic in 2020 had a negative impact on the Company's industry and operations. In the years ended December 31, 2021 and 2020, we suffered consolidated net losses of $69,860 and $1,553,807, respectively; in addition, at those dates we have accumulated deficits of $3,851,230 and $2,926,080 and at December 31, 2021 the Company shows a negative working capital of $4,195,961. Additionally, the Company has lost all of its capital stock, which, in accordance with the General Law of Commercial Companies, could be cause for dissolution of the Company at the request of an interested third party. Additionally, we have short-term financial obligations in the amount of $4,533,422. According to our management, this situation has not affected, nor will it affect the continuity of our operations; nor our operating plans for the year 2022 and subsequent years, which are described in Note 1d. The Company's ability to continue as a going concern depends entirely on the successful implementation of Management's plans to improve operating results, to be able to exercise the loan resources with the lender under the Concurrent Loan Facility and partially repay the Existing Notes, as well as the renegotiation of the Existing Notes remainder. Additionally, our majority shareholder has expressed its clear intention to support the Company through a letter of financial support, in the event that any negotiation is not completed.

The volatility of cotton prices and other raw materials may adversely affect our results of operations.

Cotton purchases represent a substantial amount of our cost of textile manufacture, as with most textile manufacturers. In 2021, we consumed approximately 174 million pounds of cotton. We are one of the top five cotton purchasers in the Americas based on volume of cotton purchased in 2019 and we expect to increase our cotton consumption in the future as our production grows. The lack of cotton price volatility follows the extraordinary price fluctuations in the cotton market between the years 2010 and 2011. Prices hit US$2 a pound in 2011 as a series of severe weather events affected supplies, and China began to build up its reserves. China's substantial cotton stockpiles, dating from the aftermath of the financial crisis, are helping to keep prices from rising. At the end of 2016, China had strategic reserves of more than 11 million tons of cotton according to the China Cotton Association, an amount equivalent to half of the world's annual production. Sales of these reserves could substantially affect cotton prices. Higher prices in the past led to increased supplies and reduced demand, as many apparel manufacturers replaced cotton with synthetic fibers, such as polyesters. In addition, higher prices of competing crops such as corn or soybeans, for the production of biofuels, have made those competing crops more attractive to growers, displacing cotton production and driving prices up. Increased demand for alternative raw materials puts pressure on cotton demand and supply from mills, which have demonstrated a shift toward cotton/polyester blends, which are more durable and easier to maintain than pure cotton fabric. Likewise, fluctuations and increases in the cost of raw material required for our operations may cause a decrease in our profitability. Changes in cotton prices or raw materials may adversely affect our working capital requirements and liquidity because of timing differences between the date of payment for cotton and other raw materials and the date of collection of cash from our customers. Furthermore, price increases impacting cotton may require us to increase our prices, which may affect demand for our products and adversely affect our business, financial condition or results of operations.

Unexpected increases in energy costs, unavailability or shortages of electrical power or other energy sources or interruptions in supply may materially and adversely affect our results of operations and financial condition.

We require substantial amounts of energy for our operations. We obtain a significant part of the electricity we need to supply our operations in Mexico from our power plant located in Altamira, Mexico, which supplies energy to our manufacturing facilities in Mexico. Our remaining electricity needs are fulfilled by the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad*). Any unexpected increase in energy costs, unavailability

or shortages of electrical power or other energy sources and interruptions of supply may have a material adverse impact on our business, financial condition and results of operations.

We are exposed to cost increases resulting from climate change and other factors beyond our control. We are susceptible to cost increases resulting from a number of factors that are beyond our control, including climate change, increases in the price of the energy sources used in our facilities or in the production and transportation of raw materials, and changes in the health regulations applicable to our operations. Any increase in our costs as a result of any of these factors could adversely affect our cost of sales and, accordingly, our results of operations

We face intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products.

We face intense competition from a number of domestic and foreign yarn producers and importers of textile products, apparel, home (bed and bath) and finished garments. We compete not only against domestic and foreign yarn producers, but also against importers of foreign-sourced fabric and apparel into Mexico and other countries in which we do business. We expect that the Brazilian and Colombian producers, among others, of fabric will expand their operations in the South American market and our margins could be adversely affected by such increased competition. We anticipate that such increased competition and price pressure from other foreign providers within these regions may lead to reduced industry consumption rates that could result in reduced gross profit margins for our products, which may adversely affect our business, financial condition or results of operations.

The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service, and improvements by our competitors of anyone or more of such factors could cause our customers to rapidly shift to other producers, which could adversely affect our business, financial condition or results of operations.

The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service. The needs of particular customers and the characteristics of particular products determine the relative importance of these various factors. Because we, and the supply chains in which we operate, do not typically operate on the basis of long-term contracts with textile and apparel customers, these competitive factors could cause our customers to rapidly shift to other producers. A large number of our competitors have significant competitive advantages, including lower labor costs, lower raw material costs, government subsidies, rapid access to consumer markets with new products, and favorable currency exchange rates against the Mexican peso. If any of these advantages increase, our products could become less competitive and our sales and profits may decrease as a result, which would adversely affect our business, financial condition and results of operations. In addition, while traditionally these competitors have focused on commodity production, they are now increasingly focused on value-added products and cutting-edge designs, which have higher margins and which is a sector in which we have typically competed against a smaller group of competitors. If such an increase in competition in product lines in which we have experienced less competition continues, we may need to reallocate our efforts, distracting management attention and production efforts from other growth areas, which may adversely affect our business, financial condition or results of operations.

We may not be able to respond to changing fashion and retail trends in a timely manner, which could have an adverse effect on us.

The apparel industry has historically been subject to rapidly changing fashion trends and consumer preferences. We believe that our success has historically been largely dependent on our ability to anticipate and respond promptly to changing consumer preferences and fashion trends in the design, styling and production of our products, the speed at which we can deliver fashionable products to distributors and in the merchandising and pricing of products in our retail stores. If we are not able to identify consumer preferences and fashion trends, fail to bring new products to distributors or to respond appropriately with the speed that customers demand, we may miss opportunities, and consumers may not purchase our products. This would result in reduced sales, reduced margins and profitability and, to the extent our existing products fail to sell or we are late to the market with the new product, excess inventories, each of which would have an adverse effect on our business, financial condition or results of operations.

We depend upon third party sources for raw materials, and interruptions in supply could increase our costs of production and cause our operations to suffer.

We depend on third parties for certain raw material supplies, such as cotton. We may experience interruptions or limitations in the supply of our raw materials, which could increase our product costs and could have an adverse effect on our business, financial condition or results of operations. We are exposed to the risk of cost increases as a result of factors beyond our control, including macroeconomic conditions, seasonality factors, demand levels, climate changes and health regulations, among others. Any disruption or curtailment in the supply of any of raw materials could cause us to reduce or cease production in general or require us to increase pricing, which could have an adverse effect on our business, financial condition or results of operations.

Our success depends on our ability to design products rapidly and to distribute our products on a timely and cost-efficient basis.

Our success depends on our ability to design products quickly as new fashion trends emerge and to distribute our products on a timely and cost-efficient basis. The rapid design of new products as fashion trends emerge depends upon the ability of our design teams to identify trends, design new product and on the ability of our manufacturing facilities to promptly manufacture products. The orderly distribution of inventory requires an adherence to our logistics guidelines. Our operations rely on the efficiency of our production inventory management and distribution systems, which could be affected by one or more of the following factors:

- improving our design capabilities through equipment and personnel in order to rapidly bring new products to market;
- any disruption in the operation of, or our ability to improve or upgrade, our information technology infrastructure and management information systems, in particular our supply chain management software system;
- disruptions in the delivery processes; and
- natural disasters or casualties, such as fires, explosions or hurricanes.

The imposition of price controls, tariffs or additional taxes on the products that we make could have an impact on our business, results of operations and financial condition.

The sale prices of our products are not currently subject to any government regulation and are mainly determined through demand and supply in our markets, which allows us to modify the prices of our products according to our own strategic decisions. However, such price controls have existed in the past from time to time and could be imposed in the future by the governments of the countries in which we operate. The imposition of price controls, tariffs or additional taxes on the products we sell could have an adverse impact on our sales and in the price of our products, which could have a negative effect on our results of operations and financial condition.

The loss or a significant reduction of business with any of our largest customers would have an adverse effect on us.

Our ten largest customer groups collectively accounted for approximately 52% of net sales for the six-month period ended June 30, 2022, including revenues from sales to Lee-Wrangler and Levi Strauss & Co., which represented approximately 12.2% and 10.5% respectively of our net sales for the same period.

To the extent any of our key customers changes its primary manufacturers and does not purchase from us or if their business deteriorates, this would have an adverse effect on our business, financial condition and results of operations. In the future, retailers may have financial problems or consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could further increase the concentration of our customers. We do not have long-term contracts with any of our customers, and sales to customers generally occur on an order-by-order basis. As a result, customers can terminate their relationships with us at any time or under certain circumstances cancel or delay orders. The loss of any of our largest customers, or the bankruptcy or material financial

difficulty of any large customer, could have an adverse effect on our business, financial condition and results of operations.

The reputation of our brands and our intellectual property rights are key to our business and they may be misappropriated or challenged by others.

We are holders and licensees of various trade names and brands. Our trade names, brands and other intellectual property rights are key assets of our business and are important for our continued success. We intend to protect such brands and trade names exercising our rights under the applicable trademark and copyright legislation and expect products licensed to us to be similarly protected. Our principal trademarks and brands are registered in Mexico and in countries in which we use such trademarks and brands. We cannot provide any assurances that we will be successful in protecting our brands and trademarks or that our licensors will use adequate resources to protect brands and trademarks licensed to us.

Any infringement on our intellectual property rights or the intellectual property rights of our licensors or denial of registration in Mexico or a foreign jurisdiction would likely result in a commitment of our time and resources to protect these rights through litigation or otherwise, which could be expensive and time-consuming. The manufacture of "knock –off" products that illegally imitate brands which we operate is on the rise in many markets where our products are sold. If we or our licensors were to fail to protect our respective intellectual property rights for any reason, it could have an adverse effect on our business, financial condition and results of operations. While we intend to defend our intellectual property rights, we may not be able to do so or we might incur in material costs and expenses in establishing such defense.

Maintaining the reputation of our brands is essential to our ability to attract and retain suppliers, consumers and associates and is critical to our future success. Failure by us or by our licensors to protect our respective intellectual property rights, could have a material adverse effect on our business, financial condition and results of operations. If we fail, or appear to fail, to deal with various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, safety conditions in our operations, ethical issues, money-laundering, privacy, record-keeping, sales and marketing practices and the proper identification of the legal, reputational, credit, liquidity and market risks inherent to our business.

We have entered into related party transactions and will continue doing so in the future.

We have entered into related party transactions, and we are likely to continue to enter into similar transactions with related parties in the future. Although these transactions are in the ordinary course of business, and we believe are on terms no less favorable to us than those we would obtain from unaffiliated third parties, they may create conflicts of interest.

Our growth strategy includes making acquisitions in the future, which could subject us to significant risks, any of which could harm our business.

Our growth strategy includes identifying and acquiring, or investing in, suitable acquisition candidates on acceptable terms. Over time, we may acquire or make investments in other companies with products that complement our business and other companies in the textile industry.

Acquisitions involve a number of risks and present financial, managerial and operational challenges, including:

- failure to accurately identify suitable companies or brands to acquire or invest in;
- failure to obtain the necessary regulatory approvals, including approvals from antitrust authorities;
- diversion of management's attention from running our existing business;
- unanticipated contingent liabilities, including liabilities arising from regulatory or environmental issues;

- potential difficulty in successfully implementing, upgrading and deploying in a timely and effective manner new operational information systems and upgrades of our internal controls and disclosure procedures and financing, accounting and product distribution systems;

- increased expenses, including travel, legal, administrative and compensation expenses resulting from newly hired employees;

- increased costs to integrate personnel, customer base and business practices of the acquired company with our own;

- inability to capitalize on expected synergies;

- adverse effects on our reported operating results due to possible write−down of goodwill associated with acquisitions;

- potential disputes with sellers of acquired businesses, technologies, services or products; and

- dilution to shareholders if we issue securities in any acquisition.

Moreover, performance problems with an acquired business' technology, products or services could also have a material adverse impact on our reputation as a whole. In addition, any acquired business, technology, product or service could significantly under-perform relative to our expectations, and we may not achieve the benefits we expect from our acquisitions. For all these reasons, our pursuit of an acquisition and investment strategy or any individual acquisition or investment, could have an adverse effect on our business, financial condition and results of operations.

Compliance with or changes in environmental laws and regulations may adversely affect our business.

Our business is subject to environmental laws and regulations in Mexico and in the countries in which we operate, which frequently change. Compliance with existing or new laws in Mexico or in any of the countries in which we operate could require additional investment or capital and equipment costs that could adversely affect our business, financial condition and results of operations. In addition, the expansion of our operations may be affected if we fail to obtain or maintain the necessary permits, authorizations and registries or if compliance costs are higher than anticipated. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations and permits, or such laws, regulations and permits are interpreted differently from our interpretation, we could be subject to fines, our manufacturing facilities could be temporarily closed or otherwise sanctioned by regulators and we could be criminally prosecuted in the event of environmental damage. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage, including any investigation and remediation of contamination.

Natural disasters, terrorist activities, regional or global health pandemics and/or geopolitical events and their consequences could disrupt our business and affect our operating results.

Our operations and business can be disrupted by unforeseen events, including war, terrorism, and other international, regional, or local instability or conflicts (including labor issues), embargos, public health issues (including tainted food, food-borne illnesses, food tampering, tampering with or failure of water supply or widespread or pandemic illness such COVID-19, Ebola, the avian or H1N1 flu, MERS and Monkeypox disease), and natural disasters such as earthquakes, tsunamis, hurricanes, or other adverse weather and climate conditions in the countries in which we operate. These events could disrupt or prevent our ability to perform functions and otherwise impede our ability to continue business operations in a continuous manner, which in turn may materially and adversely impact our business and operating results.

Any inability to maintain good relationships with unions could have an adverse effect on our business, results of operation and financial condition.

The majority of our workforce is represented by labor unions. During our 97-year history, we have not experienced any major labor strikes and have enjoyed satisfactory relationships with all of the labor unions that represent our employees. While we believe our relationships with labor unions will continue to be satisfactory, labor-related disputes may still arise. Labor disputes that result in strikes or other disruptions could also cause increases in operating costs, which could damage our relationships with our customers. These and other labor related events could adversely affect our business and results of operations. Material increases in such costs could have an adverse effect on our business, financial condition and results of operations.

An increase in labor costs could adversely affect our results of operations.

Our results may be adversely affected as a result of increases in labor costs. A shortage in the labor pool or other general inflationary pressures or changes in applicable laws and regulations could increase labor costs, which could have an adverse effect on our financial condition and results of operations.

Our labor costs include the cost of providing benefits for employees. We sponsor a number of defined benefit plans for employees in Mexico, including healthcare, severance and other employment benefits. The annual cost of benefits can vary significantly from year to year and is materially affected by certain factors such as changes in the weighted-average discount rate used to calculate obligations, the rate or trend of health care cost inflation, the outcome of collectively-bargained wage and benefit agreements, which are reviewed and renegotiated on an annual basis with respect to salaries and every two years with respect to other labor conditions and regulatory changes related to worker and labor unions benefits and wages. Material increases in such costs could have an adverse effect on our business, financial condition and results of operations.

Our operations are subject to the general risks of litigation.

We are involved on an ongoing basis in litigation arising in the ordinary course of business or otherwise. Litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, employment, antitrust, securities or environmental matters. Moreover, the process of litigating cases, even if we are successful, may be costly and time consuming, and may approximate the cost of damages sought. These actions could also expose us to adverse publicity, which might adversely affect our brands and reputation and/or consumer preferences for our products. Mexico's Congress has approved legislation allowing consumers and other market participants to initiate class action lawsuits against us. There is very limited experience in Mexico in connection with class actions and judicial precedent regarding these proceedings is extremely limited and, thus, unpredictable. Furthermore, there may be claims or expenses which are denied insurance coverage by our insurance carriers, not fully covered by our insurance, in excess of the amount of our insurance coverage or not insurable at all. Litigation trends and expenses and the outcomes of litigation cannot be predicted with certainty and adverse litigations trends, expenses and outcomes could have a material adverse effect on our business, financial condition and results of operations.

Any loss of key personnel or our inability to hire skilled personnel may adversely affect our business.

Our success depends, in large measure, on the skills, experience and efforts of our senior management team and other key personnel. While we believe that we have an experienced and comprehensive management team and highly-skilled employees, the loss of services from one or more members of our senior management or of numerous employees with critical skills could have a negative effect on our business, financial condition and results of operations. The market for highly skilled workers and management personnel in our industry is extremely competitive. We believe that our future success depends substantially on our ability to recruit, hire, motivate, develop, and retain talented personnel for all areas of our organization, including members of our senior leadership team. If we are not able to attract or retain highly skilled, talented and committed senior managers or other key employees, our ability to fully implement our business objectives may be affected.

We may incur liabilities that are not covered by insurance.

We maintain the types and amounts of insurance coverage that we believe are consistent with customary industry practices in the jurisdictions in which we conduct our business. While we seek to maintain appropriate types and levels of insurance, not all claims may be insurable. Moreover, there may be insurable events which cannot be fully covered according to our cover conditions or limits, such as indirect damages affecting our reputation and brand image. In addition, our insurance carriers may seek to rescind or deny coverage with respect to future liabilities, including from lawsuits, investigations and other legal actions against us. Furthermore, the occurrence of an event resulting in substantial claims could have a material adverse effect on our business, financial condition and results of operations. In addition, our insurance premiums may increase over time in response to any negative development of our claims history or due to overall market conditions.

We are subject to different corporate disclosure and accounting standards than U.S. companies.

As a non-U.S. issuer, investors may not be able to obtain as much publicly available information about us as they would about U.S. issuer of publicly traded securities, particularly because we are not a public company. Therefore, potential investors may not be able to easily ascertain the risks facing us as they would if we were a public U.S. company.

In addition, because we are not public companies, accounting standards and disclosure requirements in Mexico differ from those of the United States. In particular, our consolidated financial statements are prepared in accordance with IFRS, which differs from U.S. GAAP and accounting principles adopted in other countries in a number of respects. Items on the financial statements of a company prepared in accordance with IFRS may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP.

We are an international company subject to the market risk of the countries in which we produce and/or sell our products.

We currently maintain production facilities and operations in Mexico and Central and South America. The economies of certain Latin American countries may be in various stages of socioeconomic development. Our ability to conduct and expand our business and our financial performance is subject to the risks inherent in international operations, such as currency controls, currency fluctuations, trade barriers, increases in duties, taxes and governmental royalties, expatriation, expropriation, nationalization, forced negotiation, changes in local labor conditions, labor strikes, price instability, interest rates, modification of existing contracts and changes in local laws and policies, regulation, taxation, social instability and other political, social and economic developments affecting the countries in which we operate. We have no control over these factors and they may have an adverse effect on our business, financial condition, results of operations and prospects.

We are also exposed to risks related to social instability and other political, economic or social events in these countries, which could have an adverse effect on our business, financial condition and results of operations, as well as our ability to comply with our financial obligations in a timely manner.

Exchange rate fluctuations and the devaluation or depreciation of the local currencies of the countries in which we operate could limit our ability to convert such currencies into other currencies and have a material effect on our business activities, financial condition and results of operations. Any decrease in the value of our local currencies would lead to an increase in our costs and capital expenditures. Any decrease in the relative value of our local currencies, to the U.S. dollar, could increase our operating costs in each of these regions, which could have an adverse effect of our results of operations. In addition, severe devaluations or depreciations of our local currencies may result in governmental intervention or destabilize the international foreign exchange markets.

Parties with whom we do business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to us.

We are a party to contracts transactions and business relationships with various third parties, including suppliers, service providers, lenders and participants in joint ventures, strategic alliances and other joint commercial relationships pursuant to which such third parties have performance, payment and other obligations to us. In some

cases, we depend upon such third parties to provide essential products, services or other benefits including with respect to distribution, merchandise, advertising, software development and support, logistics, other agreements for goods and services in order to operate our business in the ordinary course. Current economic, industry and market conditions could result in increased risks to us associated with the potential financial distress or insolvency of such third parties. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, our rights and benefits in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to us, or otherwise impaired. We cannot make any assurances that we would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as our existing contracts, transactions or business relationships, if at all. Any inability on our part to do so could negatively affect our cash flows, financial condition and results of operations.

RISKS RELATING TO OUR INDEBTEDNESS

Our level of indebtedness, including U.S. Dollar-denominated indebtedness, may affect our flexibility in operating and developing our business and our ability to satisfy our obligations.

As of June 30, 2022, on a consolidated basis, we had Ps.4,357 million (US$218 million) of outstanding financial indebtedness, of which 41% was secured. Our level of indebtedness may have important consequences to investors, including:

- limiting our ability to generate sufficient cash flow to satisfy our obligations with respect to our indebtedness, particularly in the event of a default under one of our other debt instruments;
- limiting cash flow available to fund our working capital, capital expenditures or other general corporate requirements;
- requiring us to dedicate a portion of our cash flow from operations to service and repaying our indebtedness, which may place us at a competitive disadvantage with respect to our competitors with less debt;
- increasing our vulnerability to adverse economic and industry conditions, including increases in interest rates, foreign currency exchange rate fluctuations and market volatility;
- limiting our ability to obtain additional financing to refinance debt or to fund future working capital, capital expenditures, other general corporate requirements and acquisitions on favorable terms or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and
- limiting our ability to make acquisitions, investments or generally take advantage of corporate opportunities.

To the extent that we incur additional indebtedness, the risks outlined above could increase. In addition, our actual cash requirements in the future may be greater than expected. Our cash flow from operations may not be sufficient to repay all of our outstanding debt as it becomes due, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance our debt.

We may not generate cash flows from operations, and future borrowings may not be available to us in an amount sufficient to enable us to pay indebtedness and to fund other liquidity needs.

We may not generate cash flows from operations, and future borrowings may not be available to us in an amount sufficient to enable us to pay indebtedness and to fund other liquidity needs. If we are not able to generate sufficient cash flow or borrowings, we may need to refinance or restructure all or a portion of our indebtedness on or before maturity, reduce or delay strategic initiatives or the planned reduction of our outstanding indebtedness, or seek to raise additional capital. We may not be able to implement one or more of these alternatives on terms that are acceptable or at all. The terms of our existing or future debt agreements may restrict us from adopting any of these alternatives. Failure to generate sufficient cash flows or to achieve any of these alternatives could adversely affect our financial condition, business and results of operations.

We might not be able to obtain funding if a deterioration in the credit and capital markets or reductions in our credit ratings were to occur. This could hinder or prevent us from meeting our future capital needs and from refinancing our existing indebtedness when it comes due.

A deterioration of capital and credit markets could hinder our ability to access these markets. In addition, adverse changes in our credit ratings, which are based on various factors, including the level and volatility of our earnings, the quality of our management, the liquidity of our balance sheet and our ability to access a broad array of funding sources, may increase our cost of funding. If this were to occur, we cannot be certain that additional funding for our capital needs from credit and capital markets would be available if needed and, to the extent required, on acceptable terms. In addition, we might be unable to refinance our existing indebtedness when it comes due on terms that are acceptable to us or at all. If we were unable to meet our capital needs or refinance our existing indebtedness, it could have an adverse effect on our business, financial position and results of operations.

Cross-defaults under, and/or acceleration by lenders of, our debt obligations could result in significant liquidity problems and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our existing debt agreements (including the Existing Notes Indenture) and other debt agreements we may enter into in the future (including the New Notes Indenture) contain or may contain various financial and other covenants relating to the maintenance of certain ratios, including interest coverage ratios and leverage ratios. A breach of such covenants could give rise to a default, which could entitle our lenders to accelerate the loans provided under these agreements and/or refuse to provide us with any additional funds under the facilities. We cannot assure you that we will be in compliance with our financial covenants in the future or that lenders will grant waivers to us. We also cannot assure you that one or more of our lenders under these loan agreements would not seek to enforce any remedies following any breach of financial covenants or an event of default thereunder. In addition, the Existing Notes, the New Notes and most of our loan agreements or loan agreements we may enter into in the future contain or may contain cross-default or cross acceleration provisions, which would entitle the noteholders or lenders to accelerate repayments under their respective loan facilities upon the occurrence of a default or acceleration in our other borrowings. Any acceleration of our indebtedness may have a significant effect on our liquidity, and consequently our ability to meet our obligations with respect to our indebtedness and may materially and adversely affect our business, financial condition, results of operations and prospects. See "Management Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Indebtedness—Loan Agreements and Senior Notes—General."

RISKS RELATING TO MEXICO

Developments in other countries could adversely affect the Mexican economy, our business, financial condition and results of operations.

The market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other countries, including the United States, the European Union (the "EU") and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. Crises in the United States, the EU and emerging market countries may diminish investor interest in securities of Mexican issuers. In the past, the debt and equity securities of Mexican issuers have been affected by the sharp decline in Asian markets and the economic crises in Russia, Brazil, Argentina, Venezuela and the United States. In addition, in recent years the performance of the Mexican economy has become increasingly correlated with the performance of the U.S. economy and, any economic slowdown in the United States may have a negative impact on the Mexican economy. This could materially and adversely affect the market price of our securities, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

The Mexican economy and the market value of securities issued by Mexican issuers or their subsidiaries may be, to varying degrees, affected by economic and market conditions in the United States. Economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of high levels of economic activity between the two countries. Adverse economic conditions in the United States or other related events could

have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not materially adversely affect our business, financial condition, results of operations and prospects.

Given the close trade relations between Mexico and the United States, an economic downturn in the United States or other related events, could have a significant adverse effect on the Mexican economy, which, in turn, could affect our business, results of operations and financial condition.

Developments in U.S. and international monetary policies, including those in Mexico, could negatively impact the Mexican economy and our business, result of operations and financial condition. The 2008 global financial crisis affected some of the world's largest global commercial banks, investment banks, mortgage banks, mortgage guarantors, and insurance companies, some of which continue to experience significant difficulties. A large number of credit institutions and institutional investors reduced or suspended funding to their borrowers (including other financial institutions). International oil prices' volatility, rating agencies revisions that resulted in downgrading Mexico's sovereign debt ratings, and capital outflows as a result of unexpected policy measures, led the Mexican economy to slow down in 2019. These conditions could have a significant negative effect on the Mexican and U.S. economies and their growth prospects, which could negatively impact us.

Furthermore, Mexico, as an emerging market economy, is more exposed to unfavorable conditions in the international markets that can have a negative impact on the demand for our products. In the past, the development of adverse economic conditions in other emerging market countries resulted, in general, in capital flight and, as a consequence, in a decrease in the value of foreign investments in Mexico. In addition, the high level of indebtedness in U.S. dollars by corporates in emerging markets constitutes an additional source of instability. As a result, any combination of lower consumer confidence, disrupted global capital markets and/or reduced international economic conditions could have a negative impact on the Mexican economy and consequently on our business, results of operations and financial condition.

Mexican federal governmental policies or regulations, as well as economic, political and social developments in Mexico, could adversely affect our business, financial condition, results of operations and prospects.

Our financial performance may be significantly affected by general economic, political and social conditions in the markets where we operate. Many countries in Latin America, including Mexico and Colombia, have undergone significant economic, political and social crises in the past, and these events may occur again in the future. We cannot predict whether changes in political administrations will result in changes in governmental policy and whether such changes will affect our business. Factors related to economic, political and social conditions that could affect our performance include:

- significant governmental influence over local economies;
- substantial fluctuations in economic growth;
- high levels of inflation, including hyperinflation;
- changes in currency values;
- exchange controls or restrictions on expatriation of earnings;
- high domestic interest rates;
- price controls;
- changes in governmental, economic, tax, labor or other policies;
- imposition of trade barriers;

- changes in law or regulation; and

- overall political, social and economic instability and civil unrest.

Adverse economic, political and social conditions in Latin America, the United States, the Caribbean or in Europe may create uncertainty regarding our operating environment or may affect our ability to maintain or increase our market share or profitability and may have an adverse impact on future acquisitions, which could have a material adverse effect on our company. In addition, the perception of risk in the countries in which we operate may restrict our access to international financial markets.

Furthermore, we cannot predict the impact that political developments in Mexico will have on the Mexican economy nor can provide any assurances that these events, over which we have no control, will not have an adverse effect on the Mexican economy and, in turn, our business, results of operations and financial condition.

Our business may also be especially affected by conditions in Mexico and Colombia, two of our largest markets. Mexican elections in July 2018 resulted in a new president and in a new Congress representing a different political party from the parties that have been in power in the past. We cannot predict what changes in policy the Mexican administration may adopt, or their impact on our operations. Colombian elections in July 2022 resulted in the election of a new president from a different political party from the parties that have been in power in the past, and whose policies could have an adverse effect on the operations of our Colombian subsidiary or on the possibility of liquidating its assets. Additionally, in Mexico, economic conditions are strongly impacted by those of the United States. There is continuing uncertainty regarding U.S. policies.

We are subject to anti-corruption, anti-bribery, anti-money laundering and antitrust laws and regulations in the countries in which we operate. Any violation of any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.

We operate in multiple jurisdictions and are subject to complex regulatory frameworks with increased enforcement activities worldwide. Our governance and compliance processes may not prevent future breaches of legal, accounting or governance standards and regulations. We may be subject to breaches of our code of ethics, anti-corruption policies and business conduct protocols and to instances of fraudulent behavior, corrupt practices and dishonesty by our employees, contractors or other agents. Our failure to comply with applicable laws and other regulatory requirements could harm our reputation, subject us to substantial fines, sanctions or penalties and adversely affect our business and ability to access financial markets.

Reforms to tax laws and regulations may adversely affect our business, financial condition and results of operations.

In December 2019, the Mexican government published several amendments to the Income Tax Law (*Ley del Impuesto sobre la Renta*), the Value Added Tax Law (*Ley del Impuesto al Valor Agregado*), the Excise Tax Law (*Ley del Impuesto Especial sobre Producción y Servicios*) and the Federal Tax Code (*Código Fiscal de la Federación*), most of which became effective on January 1, 2020. This set of tax reforms is one of the most important in recent years and its main objective is to address tax evasion by strengthening the control mechanisms available to the tax authorities. Among the principal modifications contemplated by the tax reforms that could affect our results of operations are strict restrictions on the deductibility of certain expenses, such as a new limitation on the deduction of net interest that exceeds 30% of taxpayers' adjusted income, the non-deductibility of certain payments to related parties or through structured agreements with respect to income that is considered subject to preferential tax regimes, or that is subject to hybrid mechanisms. Likewise, important amendments were introduced with respect to the tax regime applicable to foreign entities or legal entities that are transparent for tax purposes, as well as to foreign entities or legal entities whose income is considered subject to preferential tax regimes.

The 2020 tax reform also introduced a new mandatory disclosure regime for transactions that are considered reportable transactions in terms of the provisions of Title VI, Sole Chapter of the Federal Tax Code.

On April 23, 2021, the Mexican government published amendments to several labor, social security and tax laws in connection with outsourcing schemes. These amendments impose penalties to outsourcing schemes related to workers that perform activities contemplated in the corporate purpose of the contracting party, require registration of

outsourcing specialized services providers with the Mexican Ministry of Labor and Welfare's (*Secretaría del Trabajo y Previsión Social*), deem payments made under non-permitted outsourcing schemes as non-deductible and significantly increase the statutory profit sharing payments that employers are required to pay to employees. We anticipate that these changes will have an impact on the business and operations of most of Mexican companies, including us. However, given the uncertainty surrounding these changes, it might be difficult to estimate the magnitude of such impact in our operations as of the date of this Exchange Offer Memorandum.

The enactment in Mexico of a labor subcontracting reform comprising changes to labor, social security and tax laws, could have as a consequence the modification of our hiring scheme.

A labor subcontracting decree was published in Mexico on April 23, 2021, and became effective the day after its publication, except for tax and civil service matters. As a result, various provisions of labor, social security and tax laws were amended, added and repealed.

As a result of the labor subcontracting reform in Mexico, all subcontracting of personnel, both through outsourcing and insourcing schemes is prohibited. The subcontracting of specialized services or the execution of specialized works, as well as the provision of complementary or shared services between companies of the same corporate group are allowed and valid under the amended legal provisions, as long as such services or works are not part of the corporate purpose or the main economic activity of the recipient of the same. The provision of the aforementioned services must be recorded in a written agreement.

The labor subcontracting reform imposes additional burdens to contractors, including registration before the Mexican Ministry of Labor and Welfare's Registry of Specialized Service Providers or Specialized Works (*Registro de Prestadoras de Servicios Especializados u Obras Especializadas*, or REPSE) as specialized service providers and reporting duties before social security agencies. In the case of contracting specialized services, the contracting party will be jointly liable for the labor obligations of the specialized services provider in case the latter does not comply with such obligations with respect to the personnel used in the performance of the relevant specialized services during the time they were rendered. Additionally, the labor subcontracting reform establishes labor and tax penalties for companies that use or benefit from the subcontracting of personnel in violation of the law, or provide specialized services without the respective registration, with tax implications in terms of deductibility and transfer of certain taxes. Fines under the Mexican Federal Labor Law for breaches to the labor subcontracting reform may reach up to Ps.4.4 million as of the date of this Exchange Offer Memorandum.

Additionally, an important aspect of the labor subcontracting reform is the establishment of a cap to the amount of profit sharing to be allocated and paid among employees equal to either (i) six months of each employee's salary, or (ii) the average of the payments made in the previous three years to the employees, whichever is more favorable to the employees.

As a consequence of the approval and enactment of the labor reform, several Mexican entities such as ourselves were required to modify our current labor structure, which may result in labor cost increases and the type and scope of labor obligations we are subject to.

Our business may be materially and adversely affected by obligations and liabilities under Mexican environmental and labor laws, regulations and official standards.

We are subject to environmental and health and safety laws and regulations that:

- affect our ongoing operations and may increase our capital costs and operating expenses related to compliance with those requirements;

- impose liability relating to contamination at or from our facilities, facilities where we have sent waste for treatment or disposal, and other properties to which we are linked. Our liability may include, for example, the investigation and remediation of contamination, personal injury and property damage caused by contamination, damages to natural resources and fines or penalties from regulatory agencies. Some of these liabilities may be imposed on the basis of strict liability and may also be joint and several,

which would result in our being held liable for the entire obligation, even where other parties are also responsible;

- could affect the expansion of our operations due to a failure or delay in obtaining future construction and operational permits; and

- could result in the suspension of our operations or the closure of any non-complying facilities.

In Mexico, key federal environmental laws include the Mexican General Law of Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*), the General Law for the Prevention and Integral Management of Wastes (*Ley General para la Prevención y Gestión Integral de los Residuos*), the National Waters Law (*Ley de Aguas Nacionales*) and their respective regulations (collectively, "Mexican Environmental Laws"). The Mexican Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*, or "SEMARNAT"), oversees compliance with Mexican federal environmental laws and has the authority to enforce these laws. As part of its enforcement powers, SEMARNAT is empowered to bring administrative and criminal proceedings against companies that violate Mexican Environmental Laws and also has the power to close non-complying facilities. Under Mexican Environmental Law, the Mexican government has implemented an aggressive program to protect the environment by promulgating regulations concerning environmental impact and risk, water, land, air and noise pollution, and hazardous materials and waste. Additionally, the Mexican government has enacted regulations concerning the importation and exportation of hazardous materials and waste. Failure to comply with Mexican Environmental Law, as well as other state and local environmental regulations our business is subject to, could result in the initiation of administrative procedures by the relevant government agencies or the closure of any non-complying facilities, which could have a material adverse effect on our business, financial condition and results of operations.

These laws, regulations and official standards specify, among other requirements, that we obtain and maintain environmental, health and safety licenses for the construction and operation of all our facilities. For example, we must obtain and maintain environmental impact authorizations, risk studies, accident prevention program authorizations, forestry land use change authorizations, air emissions operation licenses, local land use and construction licenses, waste disposal permits and authorizations including hazardous, special management and urban solid wastes, concession titles or permits for the use of water and the discharge of wastewaters.

We may be legally or contractually responsible or alleged to be responsible for the remediation of contamination at various sites, and for personal injury or property damages associated with that contamination. Contaminated sites may be identified in the future, including sites we may discover as we expand into new facilities or acquire others.

We have incurred, and expect to continue to incur, operating costs and capital expenditures to satisfy our compliance obligations and discharge our liabilities under environmental laws and regulations. Furthermore, many of our facilities have been used for industrial purposes for many years. As a result, we have incurred and may continue to incur costs related to environmental investigations, studies and/or assessments. It is possible that contamination may be present at our facilities in concentrations that will require cleanup and remediation, the costs of which could be significant and may not be covered by, or may surpass, our insurance coverage. We may also learn new information concerning existing matters or discover new matters that could materially and adversely affect us.

Mexico may experience high levels of inflation in the future, which could adversely affect our business, financial condition, results of operations and prospects.

Mexico has a history of high levels of inflation and may experience high inflation in the future. Historically, inflation in Mexico has led to higher interest rates, depreciation of the Mexican peso and the imposition of substantial government controls over exchange rates and prices, which at times has adversely affected our operating revenues and margins. The annual rate of inflation, as measured by changes in the National Consumer Price Index (Índice Nacional de Precios al Consumidor), as provided by the National Institute of Statistics and Geography (Instituto Nacional de Estadística y Geografía), was 4.83% in 2018, 2.83% in 2019, 3.15% in 2020 and 7.36% in 2021. A substantial increase in the Mexican inflation rate could adversely affect consumer purchasing power, thereby negatively impacting demand for our products, and would increase some of our costs, which could adversely affect our business, financial condition,

results of operations and prospects. To the extent that the rate of inflation exceeds the pace at which we are able to increase our prices, our prices and revenues would decrease in real terms.

Changes in the relative value of the Mexican peso to the U.S. Dollar may have an adverse effect on us.

Currently, the Mexican peso-U.S. Dollar exchange rate is determined on the basis of a free market float in accordance with the policy set by Banxico, although the Mexican government has in the past imposed exchange controls and restrictions on the ability of Mexican companies to transfer money outside of Mexico. No assurances can be given that Banxico will maintain the current exchange rate regime or that Banxico will not adopt a different monetary policy, as it has done in the past, which may affect the exchange rate itself or our ability to exchange Mexican pesos into foreign currencies, including the U.S. Dollar and the Euro, or our ability to transfer funds outside of Mexico. Any change in monetary policy, the exchange rate regime or in the exchange rate itself, as a result of market conditions over which we have no control, could have a considerable impact on our business, financial condition, and results of operations.

Since approximately 54% of our net sales for the six-month period ended June 30, 2022 are either denominated in U.S. Dollars or linked to the value of the U.S. Dollar, when the Mexican peso depreciates against the U.S. Dollar, the same level of U.S. Dollar sales as in a prior period will result in higher revenues as stated in Mexican pesos in the more recent period. Conversely, when the Mexican peso appreciates against the U.S. Dollar, the same level of U.S. Dollar sales as in a prior period will result in lower revenues as stated in Mexican pesos in the more recent period. Moreover, because a portion of our cost of goods sold, including labor costs and other operating expenses, are invoiced in Mexican pesos and are not directly affected by the relative value of the Peso to the U.S. Dollar, the real appreciation or depreciation of the Mexican peso relative to the U.S. Dollar can have an effect on our operating margins. This is due to the fact that the aggregate amount of our consolidated net sales denominated in or linked to U.S. Dollars exceeds the aggregate amount of our cost of sales and other operating expenses denominated in or linked to U.S. Dollars.

The Mexican peso has been subject to significant devaluations against the U.S. Dollar and may be subject to significant fluctuations in the future. As a result of the negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the devaluation of the Mexican peso. The Mexican government has implemented a series of measures to limit the devaluation of the Mexican peso and stabilize the local economy. However, we cannot assure you that such measures will be effective or ongoing or predict how they will impact the Mexican economy.

Continued severe peso devaluation or depreciation could have a negative effect on us, for example, by increasing the peso equivalence of obligations denominated in foreign currency. In addition, any severe devaluation could impact negatively our business and results of operations.

A severe peso devaluation or depreciation could also result in government intervention, as has occurred in other countries, or in disruptions in international currency markets. Currently, the Mexican government does not, and has not for several decades, imposed restrictions on Mexicans or foreigners' ability or rights to exchange pesos for dollars, or to transfer other currencies abroad; however, such measures have been enforced in the past and could be implemented in the future. Consequently, the peso fluctuation against the U.S. dollar could have a material adverse effect on our business.

Changes in Mexican governmental policies could adversely affect our business, results of operations and financial condition.

The Mexican federal government has historically exercised, and continues to exercise, significant influence over the Mexican economy. The Mexican government could implement significant changes in laws, policies and regulations, which could affect the economic, social and political situation in Mexico. On July 1, 2018, federal, state and municipal elections were held in Mexico, in which Andres Manuel Lopez Obrador of the National Regeneration Movement Party was elected. On December 1, 2018, Mr. Andrés Manuel López Obrador was sworn in as the new president of Mexico. Since December 1, 2018, significant changes have been initiated in public policies, which have affected the political and economic situation in Mexico. Policies and action of the Mexican federal government could have a significant impact on market conditions, prices and returns on Mexican securities. The Mexican government

has in the past intervened in the local economy and occasionally made significant changes in policies and regulations, which it could continue to do in the future.

Such actions to control inflation and other regulations and policies have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, and limits on imports, amongst others. Our business, financial condition, results of operations and our ability to comply with our obligations under the New Notes may be adversely affected by changes in governmental policies or regulations involving or affecting our management, our operations and our tax regime.

In the past, the Mexican economy has experienced balance of payment deficits and shortages in foreign exchange reserves. While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar-denominated obligations and could also have a material adverse effect on our business, financial condition and results of operations.

We cannot predict whether potential changes in Mexican governmental and economic policy could adversely affect Mexico's economic conditions or the sector in which we operate. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, results of operations, financial condition and prospects.

A renegotiation of commercial treaties or changes in foreign policy among Mexico, Canada and the United States may negatively affect our business, financial condition, results of operations and prospects.

In recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of NAFTA and increased economic activity between the two countries. On October 1, 2018, the United States, Canada and Mexico formally agreed to renegotiate the terms and conditions of NAFTA, under the USMCA. Unlike NAFTA, the USMCA includes a sunset provision that requires it to be analyzed and modified, if applicable, after six years and after 16 years, it may be renegotiated. This treaty also includes amendments to the rules of origin in practically all sectors, rules to deter artificial changes to exchange rates to obtain commercial advantages, and additional intellectual property protections, as well as amendments in labor matters and information technologies, among other provisions. The USMCA effectively replaced NAFTA on July 1, 2020. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial condition or results of operations. Uncertainties surrounding the policies of the current U.S. administration, particularly with respect to matters of importance to Mexico and its economy such as trade (including the results of the implementation of the USMCA) and immigration, could have an adverse effect on the Mexican economy, and could adversely affect our business and our operating results.

Additionally, illegal immigration through Mexico to the United States has caused friction between the two countries and could reduce economic activity between them. U.S. policies with respect to immigration under the current administration remain uncertain and there can be no assurance as to whether in the future any of the policies, actions or measures that have been proposed by the United States government will in fact be implemented, nor what the effects of any such policies on the Mexican economy as a whole, or on our business specifically, may be. Nor can there be any assurance that the United States government will not propose or implement as yet unforeseen policies, actions, measures or impose tariffs that could affect the Mexican economy or could lead to retaliatory measures by the government of Mexico. Any such developments could have a material adverse effect on our business, results of operations, financial condition or prospects.

Developments in Mexican class action laws could adversely affect our operations.

Mexico has legislation in effect that expressly permits class action lawsuits. These laws may cause consumers and other market participants to initiate class action lawsuits against us, thereby increasing our exposure to liability. Judicial precedents interpreting and applying these laws are very limited and therefore we cannot predict whether there is a likelihood of any such action being initiated or the possible outcome of any actions initiated under such laws, including the extent of any liability we may face and the impact of such liabilities on our financial condition and results of operations.

RISKS RELATING TO THE EXCHANGE OFFER

If the Exchange Offer is not consummated, we may not be able to pay the principal or interest on the Existing Notes.

We did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022 and do not currently have the means to repay such amount or any future amounts that may become payable under the Existing Notes. We believe that we are currently not likely to find a material source of financing to fund the interest and principal payments on the Existing Notes other than on the terms described in this Exchange Offer Memorandum and therefore we will not be able to meet our obligations under the Existing Notes in the event that the Exchange Offer is not consummated.

If the Exchange Offer is not consummated, we may be subject to an involuntary Mexican or U.S. reorganization related proceeding. Additionally, the Company may enter into Mexican or U.S. reorganization proceedings voluntarily.

If we do not consummate the Exchange Offer, we expect to remain in default of our obligations under the Existing Notes. Some or all of our other creditors may take legal action against us, including instituting an involuntary concurso mercantil in Mexico or filing an involuntary petition against us in the United States under the U.S. Bankruptcy Code. If we become subject to an involuntary proceeding in Mexico or the United States, we could not predict the duration thereof or the ability of Holders to influence the outcome of such proceedings. Additionally, the Company may enter into Mexican or U.S. reorganization proceedings voluntarily. A reorganization proceeding is likely to result in significant changes to our existing obligations, including the Existing Notes, which could include the cancellation or rescheduling of all or part of those obligations. During the pendency of any such proceeding, our ability to operate or manage our business, to retain employees, to maintain existing or create new customer relationships, to continue to collect payments for our services or to obtain any type of funding or financing would likely be materially adversely affected. In addition, our accountants gave a going concern qualification in their opinion in the Audited Financial Statements, which may increase the risk of a potential bankruptcy. See "—Risks Relating to our Business—There is material uncertainty relating to our viability as a going concern."

We may have insufficient liquidity to repay our existing obligations and meet our working capital requirements.

We currently expect that we will not have the means to repay or refinance the amounts that are payable under the Existing Notes and believe that we are currently not likely to find a material source of financing to fund the interest and principal payments on the Existing Notes other than on the terms described in this Exchange Offer Memorandum. We believe that the completion of the Exchange Offer is critical to resolving our constrained liquidity and ensuring our continued viability.

The consummation of the Exchange Offer may be delayed or may not occur.

We are not obligated to complete the Exchange Offer under certain circumstances and unless and until the Minimum Tender Condition and the Financing Condition are satisfied or waived (subject to the terms of the Transaction Support Agreement), as described more fully below in "The Exchange Offer—Conditions to the Exchange Offer." The principal objective of the Exchange Offer is to refinance up to US$118 million in aggregate principal amount of the Existing Notes. We did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022 and do not currently have the means to repay the principal amount of, or accrued interest on, the Existing Notes, or any future amounts that may become payable under the Existing Notes Indenture. We believe that we are currently not likely to find a material source of financing to fund the interest and principal payments on the Existing Notes other than on the terms described in this Exchange Offer Memorandum. We believe that the completion of the Exchange Offer is critical to resolving our constrained liquidity and ensuring our continued viability.

The Transaction Support Agreement is subject to certain conditions and termination rights of the TSA Supporting Noteholders, which may prevent us from consummating the Exchange Offer.

Although the Company has entered into a Transaction Support Agreement with the objective of consummating the Exchange Offer, the consummation of the Exchange Offer is subject to the satisfaction or waiver (subject to the Transaction Support Agreement) of the Minimum Tender Condition and the Financing Condition. Additionally, the Transaction Support Agreement is subject to certain termination rights. In the event that one or more of the Supporting Noteholders does not tender their Existing Notes in the Exchange Offer or if the Transaction Support Agreement is terminated, this may result in the Minimum Tender Condition and the Financing Condition not being satisfied, and therefore we may not be able to consummate the Exchange Offer and the related transactions. See "Summary—Summary of the Exchange Offer—Termination Right."

Even if the Exchange Offer is completed, it may not be completed on the schedule described in this Exchange Offer Memorandum. Accordingly, Holders participating in the Exchange Offer may have to wait longer than expected to receive their New Notes, during which time those Holders will not be able to effect transfers of their Existing Notes tendered in the Exchange Offer.

If the Exchange Offer is oversubscribed, the Existing Notes you tender may be accepted for exchange on a prorated basis.

In the event that the aggregate principal amount of Existing Notes validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) in the Exchange Offer exceeds the Exchange Offer Cap, then tenders of Existing Notes shall be accepted for exchange by us on a prorated basis, with the prorated aggregate principal amount of each Holder's validly tendered Existing Notes accepted for exchange rounded down to the nearest US$1,000. Any Existing Notes validly tendered and not accepted for exchange as a result of such proration shall returned to the Holders on the Settlement Date and redeemed in full on the Settlement Date through the discharge of all obligations owed under the Existing Notes Indenture. For the avoidance of doubt, the repayment in full of all Existing Notes not accepted for exchange in the Exchange Offer shall be made in accordance with the requirements of the Existing Notes Indenture.

Whether or not our Exchange Offer is consummated, our level of indebtedness will continue to be significant and the terms of our indebtedness will continue to contain significant restrictions.

Whether or not the Exchange Offer is consummated, we will continue to have a significant amount of other indebtedness and other obligations. Our ability to make scheduled interest and principal payments on our debt will depend upon our ability to achieve profitability and cash flow levels to support our outstanding indebtedness, which may be dependent upon an improvement in the current economic environment in the industries we operate. We recognized net interest expense on debt for the year ended December 31, 2021 and the six-month period ended June 30, 2022 was Ps.694 million and Ps.299 million, respectively, while our operating income for the same periods was Ps.1,511 million and Ps.293 million, respectively.

The amount of our interest payment requirements could adversely affect our business in a number of ways, including but not limited to, the following:

- we may have less cash available to expand and improve our business, since we are required to dedicate a significant portion of our cash flow from operations to the payment of interest on our debt;

- our ability to obtain additional debt financing may be limited and the terms on which such financing is obtained may be negatively affected; and

- our ability to compete effectively against better-capitalized competitors and to withstand downturns in our business may be affected since a significant portion of our cash flow from operations is required to be dedicated to making interest payments. As a result, we may lose market share and experience lower sales, which, in turn, could result in a material adverse effect on our financial condition, results of operations and liquidity.

The New Notes Indenture is expected to contain restrictive covenants, including restrictions on the incurrence of additional debt, the payment of dividends, the granting of liens and the making of investments, and may require us to dedicate significant portions of our cash flow from operations to the payment of principal and interest on our indebtedness.

For additional risks relating to our indebtedness, see "—Risks Relating to our Indebtedness."

You may not receive New Notes in the Exchange Offer if the procedure for tendering Existing Notes in the Exchange Offer is not followed.

We will issue the New Notes in exchange for each Holder's Existing Notes (subject to the Exchange Offer Cap) only if such Holder arranges to tender the Existing Notes via ATOP, to the Information and Exchange Agent's account at DTC for Existing Notes tendered electronically pursuant to the procedures for book-entry tender before expiration of the Exchange Offer. If the Holder is the beneficial owner of Existing Notes that is registered in the name of such Holder's broker, dealer, commercial bank, trust company or other custodial entity, and such Holder wishes to exchange their Existing Notes in the Exchange Offer, such Holder should promptly contact the person in whose name such Holder's Existing Notes is registered and instruct that person to exchange on such Holder's behalf.

You should allow sufficient time to ensure timely delivery of the Existing Notes via ATOP. Neither the Information and Exchange Agent nor we are under any duty to give notification of defects or irregularities with respect to the exchange of Existing Notes for New Notes.

The consideration for the exchange offer does not reflect any independent valuation of the Existing Notes or the New Notes.

We have not obtained or requested a fairness opinion from any financial advisor as to the fairness of the exchange offer or the relative value of Existing Notes or the New Notes. The consideration offered to Holders in exchange for validly tendered and not validly withdrawn Existing Notes does not reflect any independent valuation of the Existing Notes and does not take into account events or changes in financial markets (including interest rates) after the commencement of the Exchange Offer. If you tender your Existing Notes, you may or may not receive more or as much value as you would if you choose to keep them.

Compliance with offer and distribution restrictions.

Holders of Existing Notes are referred to the restrictions in "Transfer Restrictions of New Notes" and the agreements, acknowledgements, representations, warranties and undertakings contained therein and in the Eligibility Letter and in this Exchange Offer Memorandum. Non-compliance with these could result in, among other things, the unwinding of trades and/or heavy penalties.

RISKS RELATING TO THE NEW NOTES AND GUARANTEES

To the extent the Collateral is insufficient to repay the New Notes, payments on the New Notes and the guarantees of the New Notes Guarantors will rank effectively junior to any of our secured indebtedness, and structurally junior to debt obligations of any non-guarantor subsidiaries.

To the extent the Collateral is insufficient to repay the New Notes with respect to such portion of the New Notes, the New Notes will constitute our senior unsecured obligations and will rank equal in right of payment with all of our and our New Notes Guarantors' other existing and future senior unsecured indebtedness, other than obligations preferred by statute (such as tax, social security and labor claims). In such event, the holders of the New Notes will have a direct but unsecured claim on our assets and property, payment on the New Notes will be subordinated in right of payment to any of our existing or future secured debt to the extent of the assets securing such debt. Although the New Notes Indenture will contain restrictions on the incurrence of additional liens, these restrictions are subject to important qualifications and exceptions, and the liens that we may incur in compliance with these restrictions or liens that arise from governmental or creditor action could be substantial and could subordinate the New Notes to the extent of the security provided. In such event, payment by us in respect of the New Notes will also be structurally subordinated to the payment of secured and unsecured debt and to other liabilities of our non-guarantor subsidiaries.

As of June 30, 2022, we had total consolidated debt of US$218 million, of which 41% was secured debt of Grupo Kaltex and of our Existing Guarantors, Kaltex Textiles, Kaltex Comercial, Kaltex Energía, Kaltex Internacional, Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Energía MK KF, S.A. de C.V. and Kaltex America, Inc. If we become insolvent or are liquidated, or we become subject to bankruptcy proceedings (concurso mercantil or quiebra), or if payment under any secured debt is accelerated, any secured lenders would be entitled to exercise the remedies available to a secured lender, to the extent of the collateral provided. Accordingly, any proceeds upon a liquidation of the applicable collateral would be applied first to amounts due under the secured debt obligations.

In addition, under Mexican law, our obligations under the New Notes are generally subordinated to certain statutory preferences, including claims for salaries, wages, social security, employee housing fund contributions, retirement fund quotes, taxes and court fees and expenses. In the event of our liquidation, such statutory preferences will have preference over any other claims, including claims by any holder of the New Notes, and any remaining assets might be insufficient to satisfy the claims of the holders of the New Notes and holders of other unsecured debt including trade creditors that rank equal to holders of the New Notes, to the extent the Collateral is insufficient to repay the New Notes with respect to such portion of the New Notes.

We are a holding company with no revenue generation of our own and depend upon dividends and other funds from subsidiaries to fund our operations and pay our obligations

We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to fund our operations and pay our obligations depends on the ability of our subsidiaries to generate earnings and to pay dividends to us. Consequently, we depend on distributions or other inter-company transfers of funds from our subsidiaries to meet our debt service and other obligations, including with respect to the New Notes. Our subsidiaries are not obligated to make funds available to us for the payment on the New Notes. We cannot assure you that the funds received from our subsidiaries will be sufficient to enable us to make payments on the New Notes.

Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness.

Coltejer and any of its future subsidiaries will be unrestricted subsidiaries as of the date this Exchange Offer is consummated and will not be subject to the covenants contained in the New Notes Indenture. Unrestricted subsidiaries may enter into financing arrangements that limit their ability to make loans or other payments to fund payments in respect of the New Notes. Accordingly, we may not be able to rely on the cash flow or assets of unrestricted subsidiaries to pay any of our indebtedness, including the New Notes.

Our obligations under the New Notes may be converted into Mexican pesos in the event of bankruptcy.

Under Mexico's Law on Mercantile Reorganization (*Ley de Concursos Mercantiles*), if we or any of the New Notes Guarantors are declared bankrupt or in *concurso mercantil*, our payment obligations and the obligations of such New Notes Guarantor under the New Notes respectively, which are secured by real estate or pledged assets, would remain denominated in U.S. dollars for the purposes of the bankruptcy or *concurso mercantil* and will only cause the payment of ordinary interests in U.S. dollars for up for the total value of the real estate or assets pledged as Collateral.

Any other unsecured payment obligations not denominated in Mexican pesos would be converted into Mexican pesos and then from Mexican pesos into UDIs. Our payment obligations (i) would be satisfied at the time claims of all our creditors are satisfied, (ii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings which differ from those in other jurisdictions such as the United States, including with respect to the treatment of intercompany debt, (iii) would cease to accrue interest from the date the *concurso mercantil* is declared, (iv) would not be adjusted to take into account any depreciation of the Mexican peso against the U.S. Dollar occurring after such declaration, in respect of U.S. Dollar-denominated indebtedness, and (v) would be subject to certain statutory preferences, including tax, social security and labor claims, and claims of secured creditors (up to the value of the collateral provided to such creditors). In addition, under Mexican law, it is possible that in the event we or the New Notes Guarantors are declared bankrupt or become subject to *concurso mercantil*, any amount by which the stated principal amount of the New Notes exceeds their accreted value may be regarded as not matured and,

therefore, claims of holders of the New Notes may only be allowed to the extent of the accreted value of the New Notes. Under Mexican law, an obligation, whether resulting from a judgment or by agreement, denominated in a currency other than Mexican pesos, which is payable in Mexico, may be satisfied in Mexican pesos at the rate of exchange in effect at the time and place of payment or judgment. Such rate is currently determined by the Mexican Central Bank and published every banking-business day in the Mexican Federal Official Gazette. As a result, you may suffer a Euro shortfall if you obtain a judgment or a distribution in bankruptcy in Mexico in Mexican pesos. No separate action exists or is enforceable in Mexico for compensation for any shortfall of this kind. There is no legal precedent in connection with bankruptcy or *concurso mercantil* in Mexico on this point and, accordingly, it is uncertain how a Mexican court would measure the value of claims of holders of the New Notes or provide for a recovery of such holders' investment in part or at all.

We may be able to incur more debt in the future.

Subject to the terms of the New Notes Indenture, we may incur additional permitted indebtedness in the future, some of which may be structurally senior or effectively senior to the New Notes, including in connection with future acquisitions, some of which may be secured by our assets. Adding new debt to our current indebtedness levels would increase our leverage, and risks that we now face related to our level of indebtedness could intensify.

The guarantees of the New Notes Guarantors may not be enforceable under applicable laws.

The New Notes will be fully and unconditionally guaranteed on a joint and several basis by the New Notes Guarantors. The guarantees of the New Notes Guarantors provide a basis for a direct claim against the New Notes Guarantors; however, it is possible that the guarantees of these subsidiaries may not be enforceable under applicable laws.

Under various fraudulent conveyance laws (including under the laws of the United States), a court could subordinate or void the obligations of our New Notes Guarantors under the guarantees. Generally, to the extent that a court were to find that at the time one of our New Notes Guarantors entered into a guarantee either (a) the New Notes Guarantor incurred the guarantee with the intent to hinder, delay or defraud any present or future creditor or contemplated insolvency with a design to favor one or more creditors to the exclusion of others or (b) the New Notes Guarantor did not receive fair consideration or reasonably equivalent value for issuing the guarantee and, at the time it issued that guarantee, the New Notes Guarantor (i) was insolvent or became insolvent as a result of issuing the guarantee, (ii) was engaged or about to engage in a business or transaction for which the remaining assets of the New Notes Guarantor constituted unreasonably small capital, (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they matured or (iv) was a defendant in an action for money damages, or had a judgment for money damages declared against such New Notes Guarantor if, after final judgment, the judgment is unsatisfied, then the court could void or subordinate the subsidiary's obligations under the guarantee in favor of the Issuer's or the New Notes Guarantors' other obligations. In addition, any payment by any New Notes Guarantor could be voided and required to be returned to such New Notes Guarantor, or to a fund for the benefit of its creditors. The laws of Mexico may in some cases prevent the guarantees of Mexican New Notes Guarantors from being valid, binding and enforceable against such New Notes Guarantors in accordance with their terms. Furthermore, the validity of each guarantee is subject to the existence and validity of the primary obligation being guaranteed. As a consequence thereof, its enforcement is not independent or irrespective of such primary obligation being guaranteed. In the event that such a Mexican New Notes Guarantor were declared bankrupt or becomes subject to concurso mercantil, the guarantee may be deemed to have been a fraudulent transfer and declared void if such New Notes Guarantor failed to receive fair consideration or reasonably equivalent value in exchange for such guarantee.

Among other things, a legal challenge of a New Notes Guarantor's obligations under a guarantee on fraudulent conveyance grounds could focus on the benefits, if any, realized by the New Notes Guarantors as a result of the issuance of the New Notes. To the extent a guarantee of a New Notes Guarantor is voided as a fraudulent conveyance or held unenforceable for any other reason, the holders of the New Notes would not have any claim against that New Notes Guarantor and would solely be our creditors and creditors of the New Notes Guarantors, if any, whose obligations under the guarantees were not held unenforceable. If any such event were to occur, the creditworthiness of the New Notes, and the market value of the New Notes in the secondary market, may be materially adversely affected.

We may not have the ability to raise the funds necessary to finance a change of control offer if required by the New Notes Indenture.

Upon the occurrence of a Change of Control, we will be required to offer to purchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest to the date of repurchase. Upon such a Change of Control, we may not have sufficient funds available to repurchase all of the New Notes tendered pursuant to this requirement. In addition, we may be prohibited by future credit facilities from repurchasing any of the New Notes unless the lenders thereunder consent to such repurchase. Our failure to repurchase the New Notes would be a default under the New Notes Indenture, which would, in turn, be a default under our credit facility and, potentially, other debt. If the payment of any debt were to be accelerated, we might be unable to repay these amounts or make the required repurchase of the New Notes. See "Description of the New Notes—Change of Control."

The New Notes are subject to transfer restrictions.

The New Notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan on making any such registration in the immediate future. As a result, the New Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time.

An active trading market for the New Notes may not develop.

Currently there is no market for the New Notes. We will apply to have the New Notes listed on the Official List of the SGX-ST. A trading market for the New Notes may not develop, or if a market for the New Notes were to develop, the New Notes may trade at a discount from their principal amount, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions, our financial condition and the ability (including as a result of regulatory developments such as the SEC's interpretation of Rule 15c2-11 and its application to debt securities) and interest of securities dealers in making a market in the New Notes. The Dealer Manager is not under any obligation to make a market in the New Notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, although the New Notes Indenture requires us to use commercially reasonable efforts to obtain and maintain listing of the New Notes on the SGX-ST, we cannot assure you as to the development or liquidity of any trading market for the New Notes. If an active market for the New Notes does not develop or is interrupted, the market price and liquidity of the New Notes may be adversely affected. If such a market were to develop, the New Notes could trade at prices that may be higher or lower than the principal amount depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Mexico and the markets for similar securities. In addition, trading or resale of the New Notes (or beneficial interests therein) may be negatively affected by other factors described in this Exchange Offer Memorandum arising from this transaction or the market for securities of Mexican issuers generally. As a result, we cannot assure you of the level of liquidity of any trading market for the New Notes and, as a result, you may be required to bear the financial risk of your investment in the New Notes indefinitely. The New Notes are subject to transfer restrictions, which could limit your ability to resell your New Notes.

The New Notes have not been registered under the Securities Act or any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. These exemptions include those for offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act.

Payments claimed in Mexico on the New Notes, pursuant to a judgment or otherwise, would be required to be made in Mexican pesos.

In the event that proceedings are brought against us in Mexico, either to enforce a judgment or as a result of an original action brought before Mexican courts, or if payment is otherwise claimed from us in Mexico, we would not be required to discharge those obligations in a currency other than Mexican currency. Under the Monetary Law

of the United Mexican States (*Ley Monetaria de los Estados Unidos Mexicanos*) an obligation, whether resulting from a judgment or by agreement, denominated in a currency other than Mexican currency, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payments are made. Such rate is currently determined by Banxico and published every business day in the Federal Official Gazette (*Diario Oficial de la Federación*). As a result, you may suffer a U.S. Dollar shortfall if you obtain a judgment or a distribution in Mexico. You should be aware that no separate action exists or is enforceable in Mexico for compensation for any shortfall. As a result, upon the occurrence of any such events, payments under the New Notes by any guarantor may be materially adversely affected, and the ability of the holders of the New Notes to effectively collect payments due under the New Notes may be compromised or subject to delay

We may not be able to make payments in U.S. Dollars.

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Mexican economy.

We cannot assure you that the credit ratings for the New Notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the New Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the New Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. The ratings reflect the rating agencies' view as to the likelihood of payment of principal on the New Notes' maturity and the timely payment of interest on each interest payment date. An explanation of the significance of such ratings may be obtained from the rating agencies.

An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the New Notes.

The collection of interest on interest may not be enforceable in Mexico.

Mexican law does not permit the collection of interest on interest and, as a result, the accrual of default interest on past-due ordinary interest accrued in respect of the New Notes may be unenforceable in Mexico. To the extent such accrual is unenforceable, the holders of the New Notes will not be entitled to benefit from default interest provisions and the Company will not be required to make such payments to the holders.

Our shareholders will continue to have significant influence over us after this Exchange Offer, and their interests could conflict with yours.

Our shareholders have and will continue to have the ability to determine the outcome of substantially all matters submitted for a vote, and thus to exercise control over our business policies and affairs, including, among others, determinations with respect to the composition of our board of directors and, consequently, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our officers; mergers, other business combinations and other transactions, including those that may result in a change of control; whether dividends are paid or other distributions are made and the amount of any such dividends or distributions; sales and dispositions of our assets; agreements with competitors, suppliers and any third parties; and the amount of debt that we incur. As a result, circumstances may occur in which our shareholders' interests could conflict with your interests as noteholders.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

We are exposed to interest rate risk through our variable-rate borrowings. Borrowings under such indebtedness will bear interest at a variable rate plus an applicable margin. If interest rates increase, our debt service obligations on any variable rate indebtedness will increase even if the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to any of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk. Further, interest rates may not remain at current levels, and in the event we incur additional debt in the future, such debt could bear interest at rates higher than the current prevailing rates, which could have a material adverse effect on our business financial condition and results of operation.

RISKS RELATING TO THE COLLATERAL

The New Notes will be secured only to the extent of the value of the Collateral.

If there is an event of default on the New Notes, the holders of the New Notes will be secured only to the extent of the value of the Collateral underlying their security interest. The New Notes will be secured by substantially all of the assets of the Kaltex Textiles business. To the extent that the claims of the holders of the New Notes exceed the value of the assets securing those New Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior unsecured indebtedness ranking pari passu with the New Notes. As a result, if the value of the assets securing the New Notes is less than the value of the claims of the holders of the New Notes, those claims may not be satisfied in full before the claims of certain unsecured creditors are paid.

The estimated value of the Collateral was approximately Ps.4.8 billion, based upon appraisals conducted in December 2021. We can give no assurance as to the current or future market value of the Collateral securing the New Notes as of this date. In addition, the market value of the Collateral may be subject to fluctuations based on factors and assumptions that include, among others, the fluctuations of the Mexican peso against other currencies, general economic conditions, industry conditions, interest rate fluctuations and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the condition and demand for the assets, the actual market value of the Collateral at such time, the timing and the manner (including the possibility of the Collateral or portions thereof being sold together or as an operating business) of the sale and the availability of buyers. By their nature, the assets that comprise the Collateral are illiquid and have no readily ascertainable market value. There can be no assurance that the Collateral can be sold and, even if saleable, the timing of its liquidation and the value to be derived therefrom are uncertain. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the Collateral may not be sold in a timely or orderly manner, and the proceeds from any sale or liquidation of this Collateral may not be sufficient to repay the obligations under the New Notes.

In the event of our bankruptcy, the Collateral Agent, on behalf of the holders of the New Notes and other holders of any future *pari passu* debt, would have a secured claim against us for amounts due under the New Notes. The Collateral Agent's claim would be secured by the Collateral. Upon the occurrence of our bankruptcy or the bankruptcy of the guarantors of the Collateral in Mexico, holders of the New Notes, through the Collateral Agent, may opt not to participate in the bankruptcy proceedings, and be excluded in respect of the Collateral, but may not initiate an action to enforce the Collateral until the applicable court so authorizes, which may take time and may result in the value of the Collateral deteriorating.

In addition, the ability of the Collateral Agent to require the foreclosure on or otherwise enforce the security and other rights in respect of the Collateral may be limited by both practical and legal considerations, including priority issues, restrictions and delays arising under the laws of Mexico. As a result, the Collateral Agent may encounter material limitations or delays in the foreclosure or enforcement of rights with respect to the Collateral.

Your interests in the Collateral securing the New Notes may be adversely affected by our failure to maintain, record and/or perfect security interests.

Your rights in the Collateral may be adversely affected by our failure to comply with our obligations to create, perfect and maintain in full force and effect the security interests on the Collateral and may not exist in the event of a failure to maintain the security interest in or the priority of the Collateral. We may fail to notify the Collateral Agent of changes which may adversely affect the security interest in the Collateral. The Collateral Agent has no obligation to monitor the Collateral or the perfection of any security interest in favor of the New Notes. A failure to do so may result in the loss of the security interest therein or the priority of the security interest in favor of the New Notes against third parties, which could adversely impact the value that can be derived from such security interest in favor of the holders of the New Notes.

If we fail to comply with our obligations under the New Notes Indenture to create, perfect and maintain in full force and effect the security interests on the Collateral, you may lose or never attain the benefit of such security interests to the extent a default occurs prior to such perfection or if such security interest is perfected during the period immediately preceding our bankruptcy or insolvency.

Impediments exist to any foreclosure on the Collateral, which may adversely affect the proceeds of any foreclosure.

The documents that create liens on the Collateral for the benefit of the New Notes will be governed by the laws of Mexico. Such laws require that certain legal and procedural requirements be met, which may be different from those that would apply under the laws of the United States. For example, foreclosure is only permitted upon receipt of a judicial order. In particular, Mexican law does not allow for self-executing mechanisms or expedited foreclosure proceedings with respect to the types of liens that are contemplated for the Collateral (i.e. mortgages and non-possessory pledges). Enforcement proceedings before Mexican courts are time consuming and may be subject to significant delays, that may affect not only the value of the Collateral, but also the ability of the holders of the New Notes to enforce their rights on the Collateral and be repaid. In addition, the sale of real estate, machinery and equipment may be subject to additional approvals, such as approvals from the competition authorities that may further impact the timing of foreclosure and the value of the Collateral.

Enforcement of security interests created under the laws of Mexico will need to be conducted in Mexican courts based on the procedures and subject to the rules set forth in such laws. Insolvency statutes in Mexico may stay any foreclosure procedures for the length or a portion of the duration of such proceedings, and, in some cases, may permit the creation of collateral to secure new borrowing considered as essential to maintain the liquidity and the ordinary course of business. Further, if the assets upon which the security interest is created are deemed as essential to continue with the ordinary course of business, the foreclosure of such security interests may be significantly delayed, which could affect the proceeds of any foreclosure upon such assets. It is also possible that any such courts will require a judgment regarding the existence of an event of default under the New Notes Indenture from a U.S. court prior to any foreclosure. We may also have defenses available to us under Mexican law to foreclosure proceedings that are not available under U.S. law. Procedural delays could result in a decrease in the value of the Collateral that would otherwise be realizable upon foreclosure or an inability to enforce on the Collateral. In addition to legal and procedural concerns, the Collateral Agent may encounter practical considerations that could delay the foreclosure on assets that are part of the Collateral.

Failure to comply with any legal or procedural requirements or any delay in the foreclosure of the Collateral could affect the value of the Collateral or the possibility of the holders of the New Notes to receive proceeds from the sale of such Collateral.

It may be difficult to realize the value of the Collateral securing the New Notes, and the Company will not be required to replenish the value of the Collateral securing the New Notes following the Settlement Date in an event of loss or similar event.

The Collateral securing the New Notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the New Notes Indenture. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the New Notes, as well as the ability of the Collateral Agent to realize or foreclose on such Collateral. Furthermore, the ranking of

security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements or statutory liens or preferences.

The New Notes Indenture and the Security Documents will not include any requirements around the maintenance of a specified loan-to-value or collateralization ratio. As such, any diminution in the value of the Collateral as a result of occurrences such as the devaluation of the Mexican pesos against the United States dollar, casualty events, ordinary wear and tear or the imposition of additional liens (including Permitted Liens, as defined herein) will reduce the value of the Collateral. Any such reduction in the value of the Collateral, by itself, may not cause a default or an event of default under the New Notes Indenture or Security Documents and may reduce the amount that the holders of the New Notes will receive from the proceeds from the sale of such Collateral or the ability of the holders of the New Notes to otherwise recover their investment in the New Notes.

The value of the Collateral securing the New Notes may not be sufficient to satisfy our obligations under the New Notes.

The New Notes will be secured by the same collateral as the Existing Notes, which will consist of first-priority Liens (as defined herein) on the Collateral. In the event of a foreclosure on the Collateral, we would be required to pay certain fees and other amounts prior to distribution of any amount in respect of the New Notes and the other obligations secured by the Collateral. In addition, certain other Permitted Liens may exist on the Collateral which may have priority over the Liens securing the New Notes. We can provide no assurance as to the amount that would be distributed in respect of the New Notes upon any foreclosure or otherwise, or that the proceeds from the sale of the Collateral would be sufficient to satisfy our obligations under the New Notes.

The value of the Collateral and any amount to be received at foreclosure will depend upon many factors including, among others, the condition of the Collateral, changes in our industry, the ability to sell the Collateral in an orderly sale, the availability of buyers, the flexibility given by the Mexican courts to sell the Collateral, our ability to create and perfect first-priority Liens on our existing and future real estate or other existing and future Collateral after the consummation of this Exchange Offer, the condition of the Mexican and U.S. economies and exchange rates. Given our competitive position in the Mexican market, there may not be any buyer willing and able to purchase a significant portion of our assets in the event of foreclosure. In addition, since we are not pledging all of our assets, it may not be possible to sell our business as a going concern upon foreclosure. The Collateral consists of a substantial majority, but not all, of our tangible assets; in particular, our inventory and accounts receivable do not form part of the Collateral. Each of these factors could reduce the likelihood of a foreclosure as well as reduce the amount of any proceeds in the event of foreclosure and thus cash available to holders of the New Notes.

Third parties' rights may affect the ability of the Collateral Agent to foreclose on the Collateral and the priority of the New Notes with respect to the Collateral.

Third parties may have rights and be entitled to remedies that diminish the ability of the Collateral Agent to foreclose upon the Collateral or that affect the priority of the New Notes with respect to the Collateral. Under Mexican law, amounts owed to employees or, with some limited exceptions, to tax authorities, must be paid by a debtor prior to the satisfaction of any other claims, including secured claims. In addition, under the terms of the New Notes, certain third-party Liens in the Collateral may be senior to the Liens securing the New Notes. See "Collateral" in the Description of the New Notes.

Foreclosure of the Existing Pledge Amendment Agreements may require the approval of the Mexican Federal Competition Commission, the U.S. Federal Trade Commission, the U.S. Department of Justice, the Surface Transportation Board or other regulatory authorities in Mexico or the U.S.

The rights and remedies to which third parties are entitled may limit the ability of the Collateral Agent to foreclose on the Collateral or may otherwise reduce the proceeds available to satisfy our obligations under the New Notes. We are unaware of any material Liens on any of the Collateral.

The value of the Collateral may decrease because of obsolescence, impairment or certain casualty events.

We can provide no assurances that the value of the Collateral will not be adversely affected by obsolescence, changes in the technology in our industry, other changes in equipment or certain casualty events. The Security

Documents may not require us to improve the Collateral. Although we will be obligated under the Security Documents to maintain insurance with respect to the Collateral, we can provide no assurances that the proceeds of such insurance will be sufficient to repurchase adequate replacement Collateral or will equal the fair market value of the damaged Collateral. Our insurance policies also do not cover all events that may result in damage to the Collateral.

USE OF PROCEEDS

We will not receive any proceeds from the issuance of the New Notes in exchange for Existing Notes in the Exchange Offer. If we issue New Notes to the New Money Notes Funding Parties, the proceeds from such New Notes will be used to redeem the Existing Notes and pursuant to which the Company, the Existing Guarantors and the New Notes Guarantors shall indemnify the New Money Notes Funding Parties against certain liabilities. The Funding Commitment Letter requires the Company to pay to each New Money Notes Funding Party a commitment fee of 5% of the Commitment Amount.

CAPITALIZATION

The following table sets forth the cash and cash equivalents and total capitalization on a consolidated basis for the Company and its subsidiaries as of June 30, 2022 on (i) an actual basis, and (ii) as adjusted basis to give effect to (x) the issuance of the New Notes in the Exchange Offer (assuming Existing Notes in an aggregate principal amount equal to the Exchange Offer Cap are tendered) and (y) the disbursement in full of the loans under the Concurrent Loan Facility and the use of proceeds therefrom to redeemed in full the Existing Notes (including accrued and unpaid interest on such Existing Notes from, and including, October 11, 2022 to, but excluding, the Settlement Date) and all other obligations under the Existing Notes Indenture. Except as set forth herein, there has been no material change in our capitalization since June 30, 2022.

	As of June 30, 2022			
	Actual		Adjusted[1]	
	(Ps.)	(US$)[2]	(Ps.)	(US$)[2]
	(Amounts in millions)			
Cash and cash equivalents	198,607	9,938	54,300	2,717
Short-term debt (Existing Notes)[3]	4,356,665	217,997	—	—
Total short-term debt	**4,356,665**	**217,997**	**—**	**—**
Long-term debt	—	—	—	—
New Notes[4]	—	—	2,358,165	117,997
Concurrent Loan Facility	—	—	1,998,500	100,000
Total financial debt	**4,356,665**	**217,997**	**4,356,665**	**217,997**
Total shareholders' equity	792,462	39,653	792,462	39,653
Total capitalization[5]	**5,149,127**	**257,650**	**5,149,127**	**257,650**

(1) Cash has been adjusted to reflect all cash payments needed to be made in connection with all transactions and payments contemplated by the Exchange Offer and the Transaction Support Agreement. See "Funding of the Transactions Contemplated by the Exchange Offer and the Transaction Support Agreement" in the "Recent Developments" section of the Summary.

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022. These convenience translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) As a result of our failure to pay the outstanding principal amount of the Existing Notes on their scheduled maturity, debt under the Existing Notes is classified as short-term debt. Prior to the scheduled maturity of the Existing Notes we repurchased US$102 million of Existing Notes in the open market during 2021 and in early 2022. As of June 30, 2022, US$218 million remained outstanding

(4) The New Notes are considered new debt under IFRS. Therefore, the debt issuance costs are not presented net of the related debt and will not be amortized during the life of the New Notes.

(5) Total capitalization is calculated as the sum of short -term debt, long-term debt and total stockholders' equity.

SELECTED FINANCIAL AND OTHER INFORMATION

The tables below contain selected financial and operational information that derives from and should be read together with the financial statements and notes thereto included elsewhere in this Exchange Offer Memorandum. See "*Presentation of Financial and Certain Other Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

We have derived the consolidated financial information set forth below (i) for the years ended December 31, 2021, 2020 and 2019, from Audited Financial Statements, prepared in accordance with IFRS and which you should read in conjunction with such selected consolidated financial information and (ii) as of June 30, 2022 and for the six-month period ended June 30, 2021 from the Interim Unaudited Interim Financial Statements, prepared in accordance with IAS 34.

Unless otherwise indicated, the exchange rate used for purposes of the convenience translation is the Official Exchange Rate effective on December 31, 2021 (Ps.20.584 to US$ 1.00). These convenience translations should not be construed as representation that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates" for further information regarding the rates of exchange between the Mexican peso and the U.S. Dollar.

	For the years ended December 31,			For the six-month periods ended June 30,			
	2021[2]	2021	2020	2019	2022[3]	2022	2021
	(US$)	(Mexican pesos)		(Mexican pesos)	(US$)	(Mexican pesos)	
Consolidated Statements of Profit and Loss and Other Comprehensive Loss[1]				(Amounts in thousands)			
Net sales	657,153	13,328,371	11,461,907	14,078,291	331,050	6,714,354	6,960,625
Cost of sales	568,689	11,534,150	9,511,174	12,102,757	298,628	6,056,772	5,745,302
Gross profit	88,464	1,794,221	1,950,733	1,975,534	32,422	657,582	1,215,323
Sales expenses	19,193	389,268	601,999	706,387	4,737	96,069	283,174
Administrative expenses	33,793	685,387	735,293	735,604	11,977	242,915	397,366
Other (income) expenses, net[5]	(39,029)	(791,589)	346,117	(34,009)	1,260	25,557	(936,973)
Operating income	74,507	1,511,155	267,324	567,552	14,448	293,041	1,471,756
Interest expenses	34,220	694,042	1,023,497	1,073,654	14,749	299,139	426,077
Interest income	(158)	(3,200)	(15,755)	(12,996)	(72)	(1,463)	(1,898)
(Income) loss on valuation of derivative financial instruments	—	—	(11,175)	21,526	—	—	—
Exchange loss (income), net	23,160	469,736	524,132	(347,459)	5,437	110,273	(81,621)
Income (loss) before income taxes	17,285	350,577	(1,253,375)	(167,173)	5,208	105,638	965,956
Income tax expense	20,730	420,437	300,432	177,235	10,620	215,391	429,886
Net consolidated loss from continuing operations	(3,444)	(69,860)	(1,553,807)	(344,408)	(5,411)	(109,753)	536,070
Discontinued operations[4]	—	—	(146,588)	69,017	—	—	—
Net consolidated (loss) income	(3,444)	(69,860)	(1,700,395)	(275,391)	(5,411)	(109,753)	536,070

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors—Risks Relating to the New Notes—Coltejer and any of its future subsidiaries will be designated as unrestricted

subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the six-month period ended June 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(4) On January 4, 2021, Grupo Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.) whose principal shareholders are also shareholders of Grupo Kaltex. The sale price of the shares was US$80 million, which were paid in 2021. The sale of Grupo Milano qualifies as a discontinued operation as it represented a major segment of Grupo Kaltex's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2021, 2020 and 2019 present the results associated with Grupo Milano as discontinued operations. Additionally, the assets and liabilities of Grupo Milano have been presented as held for sale as of December 31, 2020. With the resources obtained from this sale, the Company reduced the outstanding principal amount of the Existing Notes from US$320 million to US$260 million as of June 30, 2021.

(5) On June 30, 2021, the holding company Kaltex North America, Inc., a subsidiary of Grupo Kaltex sold its subsidiary Revman International to a third party for US$66 million, of which US$40 million was paid in June 2021 and the remainder was paid in full in September 2021. Given that Revman International does not represent a major segment of Grupo Kaltex, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date. Using part of the proceeds from this sale, Grupo Kaltex purchased and cancelled an aggregate principal amount of US$40 million of the Existing Notes during the third quarter of 2021.

	As of December 31,			As of June 30,		
	2021	2021	2020	2019	2022[2]	2022
	(US$)	(Mexican pesos)		(Mexican pesos)	(US$)	(Mexican pesos)
Consolidated Statements of Financial Position						
Assets[1]			(Amounts in thousands)			
Current assets:						
Cash and cash equivalents	10,967	225,755	180,392	398,730	9,938	198,607
Accounts receivables, net	120,913	2,488,871	2,229,922	2,368,255	143,265	2,863,147
Due from related parties	116	2,383	228,528	127,745	102	2,040
Inventories, net	90,424	1,861,285	2,189,662	3,624,040	97,472	1,947,971
Prepaid expenses	13,952	287,183	252,187	191,895	14,738	294,548
Assets available for sale[4]	—	—	6,565,571	—	—	—
Total current assets	236,372	4,865,477	11,646,262	6,710,665	265,515	5,306,313
Non-current assets:						
Property, plant and equipment, net	423,497	8,717,270	9,448,742	10,329,507	420,263	8,398,963
Right-of-use assets	16,205	333,567	702,336	3,542,349	16,623	332,207
Investment properties	49,312	1,015,037	1,567,057	1,806,191	49,488	989,008
Deferred income tax	3,737	76,923	384,572	756,074	4,227	84,472
Derivative financial instruments	—	—	—	67	—	—
Other assets, net	181	3,735	24,499	1,461,576	182	3,644
Total non-current assets	492,933	10,146,532	12,127,206	17,895,764	490,783	9,808,294
Total assets	729,305	15,012,009	23,773,468	24,606,429	756,298	15,114,607
Liabilities and stockholders' equity:						
Current liabilities:						
Bank loans	—	—	—	106,425	—	—
Current portion of long-term debt	220,240	4,533,422	81,344	152,233	217,997	4,356,665
Accounts payable to suppliers	81,514	1,677,881	1,932,882	3,097,864	110,050	2,199,343
Lease liability	3,816	78,552	78,232	169,615	3,962	79,172

	As of December 31,			As of June 30,		
	2021	2021	2020	2019	2022[2]	2022
	(US$)	(Mexican pesos)		(Mexican pesos)	(US$)	(Mexican pesos)
Due to related parties	23,724	488,339	401,238	369,679	25,588	511,379
Other accounts payable and accrued liabilities	101,424	2,087,720	1,943,257	1,424,571	102,847	2,055,391
Direct employee benefits	6,951	143,076	62,815	79,343	4,907	98,065
Advance payments from customers	2,548	52,448	18,853	7,111	3,445	68,848
Liabilities available for sale[4]	—	—	4,165,941	—	—	—
Total current liabilities	440,218	9,061,438	8,684,562	5,406,841	468,795	9,368,863
Non-current liabilities:						
Long-term debt	—	—	6,372,752	5,994,134	—	—
Accounts payable to related parties	128,518	2,645,423	3,275,993	3,215,381	135,140	2,700,770
Lease liability	13,597	279,872	597,816	3,464,071	13,781	275,408
Retirement employee benefits	27,673	569,630	577,539	545,617	28,843	576,423
Labor obligations	—	—	6,106	13,303	—	—
Deferred income tax	70,855	1,458,473	1,820,521	1,934,253	70,087	1,400,681
Total non-current liabilities	240,643	4,953,398	12,650,727	15,166,759	247,850	4,953,282
Total liabilities	680,861	14,014,836	21,335,289	20,573,600	716,645	14,322,145
Stockholders' equity:						
Capital stock	195,200	4,017,990	4,017,990	4,017,990	201,050	4,017,990
(Accumulated deficit)	(187,098)	(3,851,230)	(2,926,080)	(1,775,366)	(212,015)	(4,237,114)
Other comprehensive (loss) income	(27,051)	(556,823)	14,693	(143,412)	(32,614)	(651,781)
Controlling interest	(18,950)	(390,063)	1,106,603	2,099,212	(43,578)	(870,905)
Non-controlling interest	67,394	1,387,236	1,331,576	1,933,617	83,231	1,663,367
Total stockholders' equity	48,444	997,173	2,438,179	4,032,829	39,653	792,462
Total liabilities and stockholders' equity	729,305	15,012,009	23,773,468	24,606,429	756,298	15,114,607

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors —Risks Relating to the New Notes— Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(3) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.19.985 per U.S. Dollar, the Official Exchange Rate in effect on June 30, 2022, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the nine months period ended June 30, 2022, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(4) On January 4, 2021, Grupo Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.), whose principal shareholders are also shareholders of Grupo Kaltex. The sale price of the shares was US$80 million, which were paid in 2021. The sale of Grupo Milano qualifies as a discontinued operation as it represented a major segment of Grupo Kaltex's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020 and 2019 present the results associated with Grupo Milano as discontinued operations. Additionally, the assets and liabilities of Grupo Milano have been presented as held for sale as of December 31, 2020. With the resources obtained from this sale, the Company reduced the outstanding principal amount of the Existing Notes from US$320 million to US$260 million as of June 30, 2021.

(5) On June 30, 2021, the holding company Kaltex North America, Inc., a subsidiary of Grupo Kaltex sold its subsidiary Revman International to a third party for US$66 million, of which US$40 million was paid in June 2021 and the remainder was paid in full in September 2021. Given that Revman International does not represent a major segment of Grupo Kaltex, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date. Using part of the proceeds from this sale, Grupo Kaltex purchased and cancelled an aggregate principal amount of US$40 million of the Existing Notes during the third quarter of 2021.

	For the years ended December 31,				For the six-month periods ended June 30,		
	2021[2]	2021	2020	2019	2022[3]	2022	2021
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)	
Other Financial Information[1]	(Amounts in thousands except for ratios or percentages)						
Operating income	74,507	1,511,155	267,324	567,552	14,448	293,041	1,471,756
EBITDA[4]	96,675	1,960,756	857,605	1,183,052	24,331	493,472	1,701,358
Cash flow from operating activities	75,867	1,538,733	1,445,510	1,576,782	12,671	256,988	5,546,428
Cash flow from investing activities	3,804	77,151	(335,347)	(246,703)	(346)	(7,017)	(4,185,128)
Cash flow from financing activities	(77,597)	(1,573,820)	(1,333,248)	(1,348,474)	(13,654)	(276,932)	(1,432,810)
Net cash flow	(2,074)	42,064	(223,085)	(18,395)	(1,329)	(26,961)	(71,510)
Operating margin	11%	11%	2.3%	4.0%	4.4%	4.4%	21.1%
EBITDA margin	15%	15%	7.5%	8.4%	7.3%	7.3%	24.4%
Capex	(7,283)	(147,709)	(312,866)	(253,627)	(3,856)	(78,203)	(72,444)
Total Financial Debt / EBITDA[5]	2.3x	2.3x	7.5x	5.3x	5.8x	5.8x	2.3x
Net Debt / EBITDA[5]	2.2x	2.2x	7.3x	4.9x	5.5x	5.5x	2.2x
Net Debt / (EBITDA-Capex)[5]	2.4x	2.4x	11.5x	6.3x	6.9x	6.9x	2.5x
EBITDA / Interest Expense[5][6]	2.8x	2.8x	0.8x	1.1x	1.3x	1.3x	2.6x

Reconciliation of Consolidated Net Loss of Continuing Operations to EBITDA

	For the years ended December 31,				For the six-month periods ended June 30,		
	2021[2]	2021	2020	2019	2022[3]	2022	2021
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)	
	(Amounts in thousands)						
Consolidated net (loss) income from continuing operations	(3,444)	(69,860)	(1,553,807)	(344,408)	(5,411)	(109,753)	536,070
Plus: Income tax expense	20,730	420,437	300,432	177,235	10,620	215,391	429,886
Income (loss) before income taxes	17,285	350,577	(1,253,375)	(167,173)	5,208	105,638	965,956
Plus: Exchange loss, net	23,160	469,736	524,132	(347,459)	(5,437)	110,273	(81,621)
Plus: (Income) loss on valuation of derivative financial instruments	—	—	(11,175)	21,526	—	—	—
Plus: Interest income	(158)	(3,200)	(15,755)	(12,996)	(72)	(1,463)	(1,898)
Plus: Interest expenses	34,220	694,042	1,023,497	1,073,654	14,749	299,139	426,077
Plus: Depreciation of right-of-use asset	930	18,865	110,769	98,333	134	2,714	4,011
Plus: Depreciation and Amortization	21,237	430,736	479,512	517,167	9,748	197,717	225,291
EBITDA[4]	96,675	1,960,756	857,605	1,183,052	24,331	493,472	1,701,358

Reconciliation of Net Debt

	As of December 31,				As of June 30,	
	2021[1]	2021	2020	2019	2022[3]	2022
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)
	(Amounts expressed in thousands)					
Bank loans	—	—	—	106,425	—	—
Current portion of long-term debt	220,240	4,533,422	81,344	152,233	217,997	4,356,665
Long-term debt	—	—	6,372,752	5,994,134	—	—
Total financial debt	220,240	4,533,422	6,454,096	6,252,792	4,356,665	4,356,665
Cash and cash equivalents	10,967	225,755	180,392	398,730	9,938	198,607
Net debt	209,273	4,307,667	6,273,704	5,854,062	208,059	4,158,058

Reconciliation of EBITDA – Capex

	As of December 31,				As of June 30,	
	2021	2021	2020	2019	2022	2022
	(US$)	(Mexican pesos)			(US$)	(Mexican pesos)
	(Amounts expressed in thousands)					
EBITDA[4]	95,256	1,960,756	857,605	1,183,052	24,331	493,472
Capex	(7,176)	(147,709)	(312,866)	(253,627)	(3,856)	(78,203)
EBITDA – Capex	88,080	1,813,047	544,739	929,425	20,779	415,269

(1) Includes results of operations of Coltejer and its subsidiaries which will be designated as Unrestricted Subsidiaries under the New Notes Indenture. See "Risk Factors —Risks Relating to the New Notes— Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries, which will not be subject to any of the covenants in the New Notes Indenture, and which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

(2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps.20.584 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2021, with respect to statement of financial position data and (ii) Ps.20.282 per U.S. Dollar, the daily average of the Official Exchange Rate on each day during the year ended December 31, 2021, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Mexican Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

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(4) EBITDA means net income from continuing operations plus income tax expense, interest expense, depreciation and amortization and exchange (gain) loss. For the six-month period ended June 30, 2021, EBITDA includes before tax capital gains of Ps.955 million from the sale of Revman International and Ps.65 million from the repurchase of Existing Notes. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures."

(5) Indebtedness to EBITDA ratio means total indebtedness to EBITDA for the four most recent full fiscal quarters. For the six-month period ended June 30, 2022 and 2021, the ratio considers the four most recent full fiscal quarters, amounting an EBITDA of Ps.753,170 and Ps.2,281,143, respectively.

(6) For the six-month period ended June 30, 2022 and 2021, the ratio considers the four most recent full fiscal quarters, amounting to an interest expense of Ps.567,104 and Ps.863,919.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with "Summary Historical Financial Data and Certain Other Information," "Selected Financial Data and Other Information" and our Audited Financial Statements and our Interim Unaudited Financial Statements, which appear elsewhere in this Exchange Offer Memorandum. All financial information included in this Exchange Offer Memorandum, unless otherwise indicated, is presented in Mexican pesos.

This Exchange Offer Memorandum contains forward-looking statements that reflect our plans, estimates and beliefs, and involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Exchange Offer Memorandum, particularly under "Risk Factors" and "Forward-Looking Statements." In addition to the other information in this Exchange Offer Memorandum, investors should consider carefully the following discussion and the information set forth under "Risk Factors" before investing in the New Notes.

Overview

We believe we are one of the largest textile companies in Mexico and in the Americas, measured by volume. We also estimate that we are among the largest textile companies in the world measured by volume. To our knowledge, we are one of the few vertically integrated textile companies in the Americas and in the world. We are engaged in the design, manufacturing and commercialization of yarn, fabric, apparel and home products. We believe we are currently one of the top producers of denim in the world and one of the top purchasers of cotton in the Americas.

Our business commenced operations in 1925 by six brothers of the Kalach family, who began selling and buying textile products in Mexico. After more than 97 years, the Company continues to be controlled and operated by members of the Kalach family.

We offer a variety of textile products, ranging from yarn, piece dye and denim to garments, apparel and textile home products. We also manufacture eiderdowns, sheets, coverlets, bedspreads and bed accessories as well as kitchen accessories, including dishcloths, potholders, gloves, and carpets. We offer a full production package in apparel (including design, fabric development, pattern making, cutting, sewing, finishing, labeling, packaging, distribution and shipping) with an annual capacity of approximately 165 million meters of fabric.

Although a substantial portion of our production and confection operations are located in Mexico, we also have production and confection facilities in Nicaragua and Colombia (though currently not in operation). Through our distribution offices in the United States, Mexico and Colombia and through our sales agent in Europe and our sales broker in Asia, we have sales in and/or exports into North America, Central America, South America, Europe and Asia.

Our Company is organized in two main business units: Kaltex Textiles and Kaltex Internacional.

- ***Kaltex Textiles*** is primarily engaged in the manufacture of textile products through three subsidiaries, Manufacturas Kaltex, Kaltex Apparel and Kaltex Home. Manufacturas Kaltex is engaged in the manufacturing and distribution of different textile products, including the production of yarn and fabric. Kaltex Apparel is engaged in the manufacturing and distribution of finished garments. Kaltex Home produces textile home products. Our production capability includes plants with wash, permanent press and dye capabilities for finished garments. For the six-month period ended June 30, 2022, Kaltex Textiles accounted for 72% of our total consolidated sales (before intercompany eliminations), as compared to 58% for the first six-month period ended 2021. For each of the years ended December 31, 2021 and 2020, Kaltex Textiles accounted for 68% and 60% of our total consolidated sales (before intercompany eliminations).

- ***Kaltex Internacional*** is primarily engaged in the distribution in the United States of fabric and denim (through our subsidiary Kaltex America), the production of fabric for the fashion industry in Colombia (through our subsidiary Coltejer), and the distribution of textile products throughout South America (through

our subsidiary Kaltex Colombia). For the six-month period ended June 30, 2022, Kaltex Internacional accounted for 28% of our total consolidated sales (before intercompany eliminations) as compared to 42% for the first six-month period ended June 30, 2021. For the year ended December 31, 2021 and 2020, Kaltex Internacional accounted for 32%, and 40%, respectively of our total consolidated sales (before intercompany eliminations).

Factors Affecting Our Results of Operations and Financial Condition

Sale of Grupo Milano, Revman International and Kaltex Fibers

During the first half of 2021 we sold Grupo Milano and Revman International, and we plan to sell Kaltex Fibers, which could impact our results of operations. We believe that the reduction in revenue from the sale of these businesses would be offset by lower operating expenses, thus increasing our EBITDA margin. See "Recent Developments—Sale of Kaltex Fibers."

Economic conditions in countries in which we operate

Our results of operation are closely tied to general economic conditions in the countries in which we operate, especially in Mexico, the United States and Colombia. As a result, our results of operations and financial condition and our ability to implement our business strategies could be affected by changes in the economic conditions in these three countries. See "Risk Factors—Risks Relating to Our Business—Global economic conditions can negatively affect demand for consumer goods or our cost structure and business, financial condition, results of operations and cash flows."

Mexico has historically experienced uneven periods of economic growth. The Mexican economy increased 4.8% during 2021, contracted 8.2% during 2020 and contracted 0.2% during 2019. Mexico's GDP grew by 2.2% in 2018, 2.1% in 2017, 2.6% in 2016 and 3.3% in 2015 and, according to the International Monetary Fund, is expected to grow by 2.0% and 2.5% in 2022 and 2023, respectively. Decreases in the growth rate of the Mexican economy, periods of negative growth or periods of economic instability may result in lower demand for our financial products, which could adversely affect our business, financial condition and results of operations.

For the period from December 31, 2018 to December 31, 2021, GDP growth of key countries in which we operate was an average of -0.3% for Mexico, 2.3% for Colombia and 1.9% for the United States. Over the same period, inflation rates were an average of 4.4% in Mexico, 3.2% in Colombia and 2.5% in the United States.

Exposure to exchange rate fluctuations

Exchange rate fluctuations also impact our results of operations and financial condition as a significant portion of our costs (44% for the year ended December 31, 2021 and 52% for the six-month period ended June 30, 2022) and net sales (62% for the year ended December 31, 2021 and 54% for the six-month period ended June 30, 2022) are either denominated in or linked to the value of the U.S. Dollar. As such, our margins could be influenced by fluctuations in the exchange rate between the Mexican peso and the U.S. Dollar or other currencies of the different countries in which we conduct our business operations. See "Risk Factors—Risks Relating to Mexico—Changes in the relative value of the Mexican peso to the U.S. Dollar may have an adverse effect on us."

Commodity prices

During the first six months of 2022, cotton accounted for approximately 33% of our cost structure (excluding selling, general and administrative expenses). As our consumption of cotton or other raw materials continues to grow, our results of operations become more vulnerable to price fluctuations and volatility. Higher prices or volatility in the prices of competing crops will also have an impact on the price of raw materials, causing us to increase our prices or receive a reduced profit, which may impact our results of operations. See "Risk Factors—Risks Relating to our Business— The volatility of cotton prices and other raw materials may adversely affect our results of operations."

Competition

We are subject to competition in a variety of different forms, including in terms of price, quality, geographical scope and innovation. Our competitors are both domestic and foreign and often operate at different price points or in different cost environments that may impact their pricing strategy in a way that is different from ours. In addition, we operate in a quickly evolving field in terms of product demand and design, and our ability to adapt and refocus our efforts or investments has a direct impact on our performance. The demands of this competitive landscape require that we continuously invest in research, design and production upgrades, which can be costly and the benefits of such investments often take time to materialize. See "Risk Factors—Risks Relating to our Business—The primary competitive factors in the textile industry include price, quality, product styling and differentiation, flexibility of production and finishing, delivery time and customer service, and improvements by our competitors of anyone or more of such factors could cause our customers to rapidly shift to other producers, which could adversely affect our business, financial condition or results of operations" and "Risk Factors—Risks Relating to our Business—We may not be able to respond to changing fashion and retail trends in a timely manner, which could have an adverse effect on us."

Customers/Distribution

We have significant concentration in our customer base, with our ten largest customer groups collectively accounting for over 48% of revenues for the year ended December 31, 2021 and 52% for the six-month period ended June 30, 2022. Arrangements in the industry in which we operate tend to be shorter term by nature, and therefore may be impacted by short-term changes, as well as more fundamental shifts such as mergers, reorganizations or changes in the strategy of key customers. Our ability to maintain relationships with these customers, through our own operations or their ability to continue as a going concern, remains a key priority and factor in our results of operations, as well as our ability to simultaneously develop new relationships or strengthen existing relationships. See "Risk Factors—Risks Relating to our Business—The loss or a significant reduction of business with any of our largest customers would have an adverse effect on us."

Regulatory changes in the markets in which we operate

Our products, activities and international strategy are subject to regulation in a large number of jurisdictions. Products that we export are subject to import tariffs and imposts, and our cost base and operations are affected by international treaties governing trade. Increases or decreases in such tariffs and imposts have a direct impact on our ability to benefit from our international distribution network, and significant changes in trade treaties may impact our strategy and geographical focus and would create the need or opportunity to invest in new geographic areas or business lines. See "Risk Factors—Risks Relating to Mexico—Developments in other countries could adversely affect the Mexican economy, our business, financial condition and results of operations."

Description of principal line items

Net Sales

Our net sales consist principally of revenue generated from sales of yarn, piece dye, denim, synthetic fibers, garments, apparel and textile home products and are a function of sales volumes and prices (after reduction from rebates and invoice discounts). The principal drivers of sales volumes of our products include:

- fashion, quality and pricing;
- our capacity utilization rate and inventories or absence of operational disruptions;
- demand for yarn, piece dye and denim to synthetic fibers, garments, apparel and textile home products, as well as economic growth or contraction in the countries in which we sell our products and resilience to adverse economic scenarios;
- The principal factors affecting the pricing of our products include;

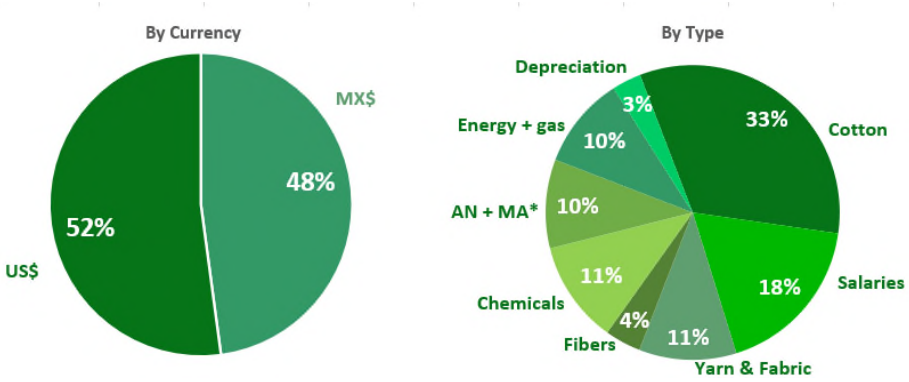
- the pricing strategies of our principal competitors;
- our product mix, ranging from premium to economic brands;
- demand for our products, particularly our higher-margin products; and
- changes in raw material prices and in other costs; and changes in the exchange rate of local currencies of the countries in which we operate.

Cost of Sales

Our cost of sales consists principally of (i) raw materials, particularly cotton and chemicals products, (ii) energy, including natural gas, (iii) labor costs, (iv) transportation costs and (v) depreciation and amortization of our plant and equipment. The principal factors that affect our cost of sales include:

- raw material prices, particularly for cotton and chemicals products, which increase depending on supply and demand and as a result of changes in the exchange rate against the local currencies;
- sales volumes;
- efficiencies in our production processes; and
- energy costs.

The chart below shows our costs by currency and type for the six-month period ended June 30, 2022.



**Stands for Acrylonitrile and Methyl Acrylate, compounds used exclusively by Kaltex Fibers*

(1) For the six-month period ended June 30, 2022.

Gross Profit

Gross profit is defined as net sales less cost of sales. Gross profit is one of the measures that we use in our analysis of our financial performance.

Selling and Administrative Expenses

Our selling and administrative expenses consist principally of selling expenses, including salaries and commissions paid to our sales force, as well as distribution, marketing and administrative expenses.

Comprehensive Financing Expense, Net

The components of comprehensive financing expense, net are comprised of:

- financial expense, including fixed and variable interest expense, which is primarily a function of the principal amount of debt outstanding and the interest rates in effect;

- financial income, which includes interest income earned on cash and cash equivalents; and

- exchange loss (gain), net, which includes net gains or losses relating to foreign currency exchange rate movements, as further described below under "Effects of Foreign Currency Exchange Rate Fluctuations."

Effects of Foreign Currency Exchange Rate Fluctuations

Because we operate in several countries, we are exposed to foreign exchange rate risk when we translate sales and expenses from foreign currencies, most notably the U.S. Dollar and the Euro, into Mexican pesos. In order to report consolidated financial statements, we must effectively convert multiple currencies into a single reporting currency. As such, fluctuations in currency rates could affect our statement of income, even if local currency results remain the same.

The results reflected in the line items included in the financial statements of each of our subsidiaries should be measured using the currency of the primary economic environment in which each such entity operates (the "functional currency"). We have concluded that our functional currency is the Mexican peso.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the final tax determination is uncertain and is therefore based on estimates. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In the event the final tax outcome of these matters is different from the amounts that were initially recorded, these differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Seasonality

Our textile and commercial divisions are subject to seasonal fluctuations. The textile division is most active from July to October, with production declines from December to January and a slow season in January and February, when sales decrease and cost of textile manufacture remains constant.

Critical Accounting Policies

Our financial statements are prepared in accordance with IFRS as issued by the IASB. In preparing them, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

Significant increase in credit risk

As disclosed in note 6 to our Audited Financial Statements, Expected Credit Loss "ECL" is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9–Financial Instruments, does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, we take into account qualitative and quantitative reasonable and supportable forward-looking information.

Discount rate and lease renewals

We define the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. We enter into lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, we estimate the contracts' terms considering their contractual rights and limitations, their business plan, as well as our intentions for the use of the underlying asset.

We estimate the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate. We use a three-tier model, with which we determine the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, we also consider our policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Inventory reserves

The factors that we consider in inventory reserves are the sales volumes and movements in the age of the inventories.

Calculation of allowance for credit loss

When measuring ECL we use reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the we would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Property, plant and equipment

We review useful lives of property, plant and equipment at least once a year, which are defined based on technical studies prepared by internal specialized personnel which also involve external experts. The degree of uncertainty about the estimated useful lives is affected by changes in the market, production volumes and technological developments.

Investment properties

The fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate, including factors such as cap and discount rates for the investment properties.

Impairment of non-current assets

The carrying value of non-current assets is reviewed for impairment if any situations or changes in circumstances indicate that the carrying value is not recoverable. If there is evidence of impairment, the asset is reviewed to determine if the carrying value exceeds its recoverable amount, in which case the asset is determined to be impaired. When evidence of impairment is identified, we estimate the value in use assigned to our property, plant

and equipment, and cash-generating units in the case of certain assets. The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and appropriate discount rate to calculate the present value. We use cash flow projections of revenue using estimates of market conditions, pricing, and production and sales volumes.

Employee retirement benefits

Assumptions are used to determine the best estimate of these benefits annually. Such estimates, as well as assumptions, are established jointly with independent actuaries annually. These assumptions include demographic assumptions, the discount rates and expected increases in salaries and future permanence, among others. A change in these assumptions could affect the value of assets liabilities associated with employee benefits and the income statement and other comprehensive income in the period in which such changes occur.

Fair value measurements and valuation processes

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The Company's Board of Directors has set up a valuation committee, which is headed up by the Company's Financial Director, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or liability, the Company uses market-observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation.

The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. Every three months, the Financial Director reports the findings of the valuation committee to the Company's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities. Information about the valuation techniques and inputs used in the determining the fair value of various assets and liabilities are disclosed Note 16 I to the Audited Financial Statements.

Six-month period ended June 30, 2022 compared to the six-month period ended June 30, 2021

The following sets forth our results of operations for the six-month period ended June 30, 2022, compared to the six-month period ended June 30, 2021:

	For the six-month periods ended June 30,	
	2022	2021
	(Amounts in thousands of Mexican pesos)	
Net sales	6,714,354	6,960,625
Cost of sales	6,056,772	5,745,302
Gross profit	657,582	1,215,323
Sales expenses	96,069	283,174
Administrative expenses	242,915	397,366
Other (income) expenses, net	25,557	(936,973)
Operating income	293,041	1,471,756
Interest expenses	299,139	426,077
Interest income	(1,463)	(1,898)
(Income) loss on valuation of derivative financial instruments	—	—
Exchange loss, net	(110,273)	81,621
Income before income taxes	105,638	965,956
Income tax expense	215,391	429,886
Net consolidated loss from continuing operations	(109,753)	536,070
Discontinued operations	—	—
Net consolidated (loss) gain	(109,753)	536,070

The following tables provide certain financial information by operating segment for the six-month period ended June 30, 2022, compared to the six-month period ended June 30, 2021:

	For the six-month period ended June 30, 2022 (Amounts in thousands of Mexican pesos)			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	3,084,746	8,028,488	(4,398,880)	6,714,354
Depreciation and amortization	2,870	194,846	—	197,716
Depreciation right-of use assets	—	2,714	—	2,714
Gross profit	71,858	688,431	(102,706)	657,583

	For the six-month period ended June 30, 2022 (Amounts in thousands of Mexican pesos)			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	3,978,866	5,561,281	(2,579,522)	6,960,625
Depreciation and amortization	23,008	202,583	—	225,291
Depreciation right-of use assets	—	4,011	—	4,011
Gross profit	495,357	972,505	(252,539)	1,215,323

General

Net sales for the six-month period ended June 30, 2022 were Ps.6,714 million, a decrease of 3.5% from the Ps.6,961 million reported for the same period in 2021. This decrease was primarily due to the sale of Revman International, partially offset by higher sales volume, accompanied by higher average sales prices, driven by strong growth in the United States, sourcing reallocation of our customers from China to America and positive trends in fashion, which have led to more styles, therefore more demand. For the six-month period ended June 30, 2022, 45% of our sales were in Mexico, 48% were in the United States, 5% were in South America, and 2% were in Europe, as compared with 39%, 57%, 3% and 1%, respectively, for the six-month period ended June 30, 2021.

Cost of sales for the six-month period ended June 30, 2022 were Ps.6,057 million, an increase of 5.4% from the Ps.5,745 million reported for the same period in 2021. This increase was primarily due to higher business activity. For the six-month period ended June 30, 2022, our costs to manufacture textiles consisted of the following: cotton 33%, labor 18%, fabrics 11%, fibers 4%, chemicals 11%, acrylonitrile and methyl acrylate 10%, energy 7%, machinery and equipment maintenance 3%, gas 3%, depreciation 3% and others and eliminations -3%, as compared with 25%, 13%, 12%, 4%, 9%, 6%, 7%, 3%, 2%, 4%, and 15%, respectively, for the six-month period ended June 30, 2021.

Gross profit, for the six-month period ended June 30, 2022 were Ps.658 million, a decrease of 45.9% from the Ps.1,215 million reported for the same period in 2021. This decrease was primarily due to higher cost of raw material.

Sales expenses for the six-month period ended June 30, 2022, were Ps.96 million, a decrease of 66.1% from the Ps.283 million reported for the same period in 2021. This decrease was primarily due to a decrease in expenses resulting from the sale of from Revman International.

Administrative expenses for the six-month period ended June 30, 2022 were Ps.243 million, a decrease of 38.9% from the Ps.397 million reported for the same period in 2021. This decrease is a result of a decrease in expenses resulting from the sale of from Revman International.

Other (income) expenses, net for six-month period ended June 30, 2022 were Ps.26 million, a decrease of 102.7% from the Ps.(937) million income reported for the same period in 2021. This decrease was due to a net capital gain on financial instruments and the recognition of the income derived from the sale of Revman International.

Interest expenses for the six-month period ended June 30, 2022 were Ps.299 million, a decrease of 29.8% from the Ps.426 million reported for the same period in 2021. This decrease was primarily due to reduction in our debt profile. For the six-month periodended June 30, 2022, our consolidated debt was Ps.4,357 million as compared with Ps.4,475 million for the six-month period ended June 30, 2021.

Interest income for the six-month period ended June 30, 2022 were Ps.(1) million, a decrease of 22.9% from the Ps.(2) million reported for the same period in 2021. This decrease was primarily due to a reduction in our excess balance in cash investments.

Exchange (gain) loss, net for the six-month period ended June 30, 2022 were an income of Ps.110 million, an increase of 253.1% from the loss Ps.82 million reported for the same period in 2021. The exchange income in 2022 due to the low volatility on the Mexican peso exchange rate.

Income before income taxes for the six-month period ended June 30, 2022 were Ps.106 million, a decrease of 89.1% from the Ps.966 million reported for the same period in 2021 as a result of the aforementioned factors.

Income tax expense for the six-month period ended June 30, 2022 were Ps.215 million, a decrease of 49.9% from the Ps.430 million reported for the same period in 2021. This decrease was primarily due to the decrease in business activity.

Consolidated net gain (loss) for the six-month period ended June 30, 2022 were Ps.(110) million, a decrease of 120.5% from the Ps.536 million reported for the same period in 2021 as a result of the aforementioned factors.

Net Sales by Operating Segment

International net sales before eliminations for the six-month period ended June 30, 2022 were Ps.3,085 million, a decrease of 22% from the Ps.3,979 million reported for the same period in 2021. This decrease was primarily due to the sale of Revman International, partially offset by higher sales volume, accompanied by higher average sales prices, driven by strong growth in the United States.

Textile net sales before eliminations for the six-month period ended June 30, 2022 were Ps.8,028 million, an increase of 44.4% from the Ps.5,561 million reported for the same period in 2021. This increase was primarily due to reallocation of our customers from China to America and positive trends in fashion, which have led to more styles, therefore more demand.

Year ended December 31, 2021 compared to the year ended December 31, 2020

The following sets forth our results of operations for the year ended December 31, 2021, compared to the year ended December 31, 2020:

	For the years ended December 31,	
	2021	2020
	(Amounts in thousands of Mexican pesos)	
Net sales	13,328,371	11,461,907
Cost of sales	11,534,150	9,511,174
Gross profit	1,794,221	1,950,733
Sales expenses	389,268	601,999
Administrative expenses	685,387	735,293
Other (income) expenses, net	(791,589)	346,117
Other (income) expenses, net	1,511,155	267,324
Interest expenses	694,042	1,023,497
Interest income	(3,200)	(15,755)

	For the years ended December 31,	
	2021	2020
	(Amounts in thousands of Mexican pesos)	
(Income) loss on valuation of derivative financial instruments	—	(11,175)
Exchange loss (gain), net	469,736	524,132
Income (loss) before income taxes	350,577	(1,253,375)
Income tax expense	420,437	300,432
Net consolidated loss from continuing operations	(69,860)	(1,553,807)
Other (income) expenses, net	—	(146,588)
Other (income) expenses, net	(69,860)	(1,700,395)

The following tables provide certain financial information by operating segment for the year ended December 31, 2021 and 2020:

	For the year ended December 31, 2021 (Amounts in thousands of Mexican pesos)			
	International	Textile	Eliminations	Total Consolidated
Net sales	6,677,701	14,228,359	(7,577,689)	13,328,371
Depreciation and amortization	38,947	391,789	—	430,734
Depreciation right-of use assets	—	18,865	—	18,865
Gross profit	531,073	1,469,052	(205,904)	1,794,221
Total assets	6,128,548	14,811,375	(5,927,914)	15,012,009
Total liabilities	3,558,153	11,361,551	(904,868)	14,014,836

	For the year ended December 31, 2020 (Amounts in thousands of Mexican pesos)			
	International	Textile	Eliminations	Total Consolidated
Net sales	6,968,605	10,498,656	(6,005,354)	11,461,907
Depreciation and amortization	61,856	417,656	—	479,512
Depreciation right-of use assets	—	110,769	—	110,769
Gross profit	1,236,038	843,921	(129,226)	1,950,733
Total assets	6,715,823	14,580,516	2,477,129	23,773,468
Total liabilities	4,001,631	13,142,539	4,191,119	21,335,289

General

Net sales for the year ended December 31, 2021 were Ps.13,328 million, an increase of 16.3% from the Ps.11,462 million reported for the same period in 2020. This increase was primarily due to higher demand coming from the United States. For the year ended December 31, 2021, 45% of our sales were in Mexico, 51% were in the United States, 3% were in South America, and 1% were in Europe, as compared with 34%, 58%, 7% and 1%, respectively, for the year ended December 31, 2020.

Cost of sales for the year ended December 31, 2021 was Ps.11,534 million, an increase of 21.3% from the Ps.9,511 million reported for the same period in 2020. This increase was primarily related to the growth on sales and the increase in raw materials prices. For the year ended December 31, 2021, our costs to manufacture textiles consisted of the following: cotton 26%, labor 16%, fabrics 11%, fibers 5%, chemicals 10%, energy 7%, acrylonitrile and methyl acrylate 7%, machinery and equipment maintenance 3%, gas 2%, depreciation 4%, and others 10%, as compared with 20%, 16%, 10%, 6%, 7%, 7%, 5%, 4%, 2%, 5% and 18%, respectively, for the year ended December 31, 2020.

Gross profit, for the year ended December 31, 2021 was Ps.1,794 million, a decrease of 8.0% from the Ps.1,951 million reported for the same period in 2020. This decrease was primarily due to the increase in cost of sales.

Sales expenses for the year ended December 31, 2021 were Ps.389 million, a decrease of 35.3% from the Ps.602 million reported for the same period in 2020. This decrease was primarily due to savings following the sale of Revman International.

Administrative expenses for the year ended December 31, 2021 were Ps.685 million, a decrease of 6.8% from the Ps.735 million reported for the same period in 2020 due to the savings coming from the sale of Revman International.

Other (income) expenses, net for the year ended December 31, 2021 was income of Ps.(792) million, an increase of 328.7% from the Ps.346 million of expense reported for the same period in 2020. This decrease was due to the revaluation effect of investment assets in Colombia.

Interest expenses for the year ended December 31, 2021 were Ps.694 million, a decrease of 32.2% from the Ps.1,023 million reported for the same period in 2020. This decrease was primarily due to lower outstanding debt. For the year ended December 31, 2021, our consolidated debt was Ps.4,533 million as compared with Ps.6,454 million for the year ended December 31, 2020.

Interest income for the year ended December 31, 2021 was Ps.(3.2) million, a decrease of 79.7% from the Ps.(15.8) million reported for the same period in 2020. This decrease was primarily due to a decrease in our excess balance in cash investments.

Exchange loss, net for the year ended December 31, 2021 was Ps.470 million, a decrease of 10.4% from the Ps.524 million reported for the same period in 2020. The exchange loss in both periods was primarily due to the devaluation of the Mexican peso during both periods.

(Loss) income before income taxes for the year ended December 31, 2021 was an income of Ps.351 million compared to a loss of Ps.(1,253) million for the same period in 2020 as a result of the aforementioned factors.

Income tax expense for the year ended December 31, 2021 was Ps.420 million, an increase of 39.9% from the Ps.300 million expense reported for the same period in 2020. This increase was primarily due to higher taxable income.

Consolidated net loss from continuing operations for the year ended December 31, 2021 was Ps.70 million, a decrease of 95.5% from the loss of Ps.1,554 million reported for the same period in 2020 as a result of the aforementioned factors.

Discontinued operations for the year ended December 31, 2021 was Ps.0.0 million, an increase of 100% from the Ps.(147) million reported for the same period in 2020 as a result of the shutdown of our retail stores during most part of 2020.

Consolidated net loss for the year ended December 31, 2021 was Ps.70 million, a decrease of 95.9% from the Ps.(1,700) million reported for the same period in 2020 as a result of higher other income during 2021.

Net Sales by Operating Segment

International net sales before eliminations for the year ended December 31, 2021 were Ps.6,678 million, a decrease of 4.2% from the Ps.6,969 million reported for the same period in 2020. This decrease was primarily due to the sale of Revman International.

Textile net sales before eliminations for the year ended December 31, 2021 were Ps.14,228 million, an increase of 35.5% from the Ps.10,499 million reported for the same period in 2020. This increase was primarily due to higher demand coming from the United States.

Year ended December 31, 2020 compared to the year ended December 31, 2019

The following sets forth our results of operations for the year ended December 31, 2020, compared to the year ended December 31, 2019:

	For the years ended December 31,	
	2020	2019
	(Amounts in thousands of Mexican pesos)	
Net sales	11,461,907	14,078,291
Cost of sales	9,511,174	12,102,757
Gross profit	1,950,733	1,975,534
Sales expenses	601,999	706,387
Administrative expenses	735,293	735,604
Other (income) expenses, net	346,117	(34,009)
Operating income	267,324	567,552
Interest expenses	1,023,497	1,073,654
Interest income	(15,755)	(12,996)
(Income) loss on valuation of derivative financial instruments	(11,175)	21,526
Exchange (gain), net	524,132	(347,459)
Loss before income taxes	(1,253,375)	(167,173)
Income tax expense	300,432	177,235
Net consolidated loss from continuing operations	(1,553,807)	(344,408)
Discontinued operations	(146,588)	69,017
Net consolidated loss	(1,700,395)	(275,391)

The following tables provide certain financial information by operating segment for the year ended December 31, 2020 and 2019:

	For the year ended December 31, 2020 (Amounts in thousands of Mexican pesos)			
	International	Textile	Eliminations	Total Consolidated
Net sales	6,968,605	10,498,656	(6,005,354)	11,461,907
Depreciation right of use assets	—	110,769	—	110,769
Depreciation and amortization	61,856	417,656	—	479,512
Gross profit	1,236,038	843,921	(129,226)	1,950,733
Total assets	6,715,823	14,580,516	2,477,129	23,773,468
Total liabilities	4,001,631	13,142,539	4,191,119	21,335,289

	For the year ended December 31, 2019 (Amounts in thousands of Mexican pesos)			
	International	Textile	Eliminations	Total Consolidated
Net sales	7,223,169	14,040,283	(7,185,161)	14,078,291
Depreciation right of use assets	42,377	55,956	-	98,333
Depreciation and amortization	73,444	453,261	(9,538)	517,167
Gross profit	971,480	1,359,343	(355,289)	1,975,534
Total assets	7,747,797	13,860,933	2,997,699	24,606,429
Total liabilities	4,527,938	11,877,084	4,168,578	20,573,600

General

Net sales for the year ended December 31, 2020 were Ps.11,462 million, a decrease of 18.6% from the Ps.14,078 million reported for the same period in 2019. This decrease was primarily due to the economic disruption originated by the COVID-19 pandemic followed by the slow recovery of the Mexican economy. For the year ended December 31, 2020, 34% of our sales were in Mexico, 58% were in the United States, 7% were in South America, and 1% were in Europe, as compared with 42%, 46%, 11%, and 1%, respectively, for the year ended December 31, 2019.

Cost of sales for the year ended December 31, 2020 were Ps.9,511 million, a decrease of 21.4% from the Ps.12,103 million reported for the same period in 2019. This decrease was primarily related to the contraction on sales. For the year ended December 31, 2020, cotton represented 20% of our costs of textile manufacture, labor 16%, fabrics 10%, fibers 6%, chemicals 7%, energy 7%, acrylonitrile and methyl acrylate 5%, machinery and equipment maintenance 4%, gas 2%, depreciation 5% and others 18%, as compared with 21%, 13%, 12%, 8%, 11%, 8%, 7%, 3%, 2%, 4% and 11%, respectively, for the year ended December 31, 2019.

Gross profit, for the year ended December 31, 2020 was Ps.1,951 million, a decrease of 1.3% from the Ps.1,976 million reported for the same period in 2019. This decrease was primarily due to the economic impact of the COVID-19 containment measures. Sales expenses for the year ended December 31, 2020 were Ps.602 million, a decrease of 14.8% from the Ps.706 million reported for the same period in 2019. This decrease was primarily due to lower sales.

Administrative expenses for the year ended December 31, 2020 were Ps.735 million, a decrease of 0.04% from the Ps.736 million reported for the same period in 2019.

Other (income) expenses, net for the year ended December 31, 2020 was expense of Ps.346 million, a decrease of 1,117.7% from the Ps.(34) million of income reported for the same period in 2019. This decrease was due to the revaluation effect of investment assets in Colombia.

Interest expenses for the year ended December 31, 2020 were Ps.1,023 million, a decrease of 4.7% from the Ps.1,074 million reported for the same period in 2019. This decrease was primarily due to lower outstanding debt and a more favorable FX rate. For the year ended December 31, 2020, our consolidated debt was Ps.6,454 million as compared with Ps.6,253 million for the year ended December 31, 2019.

Interest income for the year ended December 31, 2020 was Ps.(15.8) million, an increase of 21.2% from the Ps.(13.0) million reported for the same period in 2019. This increase was primarily due to an increase in our excess balance in cash investments.

Exchange loss (gain), net for the year ended December 31, 2020 was Ps.524 million, a decrease of 250.8% from the Ps.(347) million reported for the same period in 2019. The exchange loss was primarily due to the devaluation of the Mexican Peso during 2020.

Loss before income taxes for the year ended December 31, 2020 was loss of Ps.(1,253) million compared to a loss of Ps.(167) million for the same period in 2019. This decrease was primarily due to the aforementioned factors.

Income tax expense for the year ended December 31, 2020 was Ps.300 million, an increase of 69.5% from the Ps.177 million reported for the same period in 2019. The increase in income tax expense was due to higher taxable income.

Net consolidated loss from continuing operations for the year ended December 31, 2020 was Ps.(1,554) million, a decrease of 351.2% from the Ps.(344) million reported for the same period in 2019, as a result of the aforementioned factors.

Discontinued operations for the year ended December 31, 2020 was Ps.(147) million, a decrease of 312.4% from the Ps.69 million reported for the same period in 2019 as a result of the shutdown of our retail stores during most part of 2020.

Consolidated net loss for the year ended December 31, 2020 was Ps.(1,700) million, a decrease of 517.4% from the Ps.(275) million reported for the same period in 2019 as a result of lower economic activity and a large exchange loss.

Net Sales by Operating Segment

International net sales before eliminations for the year ended December 31, 2020 were Ps.6,969 million, a decrease of 3.5% from the Ps.7,223 million reported for the same period in 2019. This decrease was primarily due to the economic disruption as a result of the COVID-19 containment measures.

Textile net sales before eliminations for the year ended December 31, 2020 were Ps.10,499 million, a decrease of 25.2% from the Ps.14,040 million reported for the same period in 2019. This decrease was primarily due lower demand coming from the COVID-19 pandemic, followed by the slow recovery of the Mexican economy.

Liquidity and Capital Resources

Overview

During 2019, there were no events that negatively affected our liquidity. During 2020, our liquidity was affected by the disruption caused by the COVID-19 containment measures as some of our customers postponed sales orders and others did not pay in time, affecting our sales and collection cycles. During 2021, and for the first six months of 2022, there weren't events that affected our liquidity.

Our principal capital needs are for working capital and capital expenditures. Our sources of funds are primarily our operating cash and factoring lines of credit.

Liquidity

The following table summarizes cash flows from operating, investing and financing activities for the years ended December 31, 2021, 2020 and 2019 and for the six-month periods ended June 30, 2022 and 2021.

	For the years ended December 31,			For the six-month periods ended June 30,	
	2021	2020	2019	2022	2021
	(Amounts in thousands of Mexican pesos)				
Net cash flows provided by operating activities	1,538,733	1,445,510	1,576,782	230,988	5,546,428
Net cash flows provided by (used in) investing activities	77,151	(335,347)	(246,703)	(7,017)	(4,185,128)
Net cash flows used in financing activities	(1,573,820)	(1,333,248)	(1,348,474)	(250,932)	(1,388,110)
Cash and cash equivalents at period end	225,755	180,392	398,730	198,607	108,458

Operating Activities

In the six-month period ended June 30, 2022, net cash generated from operating activities was Ps.257 million, primarily attributable to the increase in working capital.

In 2021, net cash flows provided by operating activities were Ps.1,539 million, primarily attributable to assets available for sale, partially offset by the decrease in accounts payable to related parties.

In 2020, net cash flows provided by operating activities were Ps.1,446 million, primarily attributable to the net increase working capital and cash flows from discontinued operations, partially offset by the income tax paid and the consolidated net loss.

In 2019, net cash flows provided by operating activities were Ps.1,577 million, primarily attributable to the net increase working capital and cash flows from discontinued operations, partially offset by the decrease in advance payments from customers, the income tax paid and the consolidated net loss.

Investing Activities

For the six-month period ended June 30, 2022, net cash used in investing activities was Ps.(7) million, primarily attributable to the acquisition of property, plant and equipment.

In 2021, net cash flows generated from investing activities were Ps.77 million, primarily attributable to the sale of property, plant and equipment.

In 2020, net cash flows used in investing activities were Ps.(335) million. This change was primarily due to the acquisition of property, plant and equipment.

In 2019, net cash flows used in investing activities were Ps.(247) million. This change was primarily due to the acquisition of property, plant and equipment.

Financing Activities

For the six-month period ended June 30, 2022, net cash used in financing activities was Ps.(251) million, primarily attributable to the interest payments.

In 2021, net cash flows used in financing activities were Ps.(1,574) million, primarily attributable to the payments of debt.

In 2020, net cash flows used in financing activities were Ps.(1,333) million. This change was primarily due to the interest payments and the cash flows from discontinued operations.

In 2019, net cash flows used in financing activities were Ps.(1,348) million, primarily attributable to the interest payments and the cash flows from discontinued operations.

Dividends

For the years ended December 31, 2021, 2020, and 2019 we paid dividends of Ps.96 million, Ps.110 million, and Ps.141 million, respectively.

As a holding company, we finance the operations of our subsidiaries through our normal internal cash management and treasury functions. To the extent our subsidiaries are not able to satisfy their financing needs through internal cash generations, we provide centralized financing through intercompany loans.

Indebtedness

As of June 30, 2022, we had total indebtedness of Ps.4,357 million, all of which was denominated in U.S. Dollars. The primary use of our debt has been to fund capital expenditures and working capital.

As of June 30, 2022, of our total indebtedness, Ps.4,483 million constituted short-term debt, including interest payable of Ps.126 million; and there was no long-term debt.

The following description summarizes material terms of certain of our credit arrangements, including a description of certain covenants contained in such credit arrangements.

The following description is only a summary and does not purport to describe all of the terms of the credit arrangements that may be important.

See also Note 14 to the Audited Financial Statements for other accounts payable and accrued liabilities.

Loan Agreements and Senior Notes

General

We have used secured bilateral bank loans for acquisitions, capital expenditures and refinancing to fund our operations. Our bilateral loans contain maintenance covenants that require us to maintain certain financial ratios. The failure to comply with such covenants, if not cured within a certain specified time period, can result in the loan then outstanding becoming immediately due and payable. As of June 30, 2022, there are no bilateral loans outstanding.

BNP Paribas Fortis Bank SA/NV

On December 9, 2011, our subsidiary Manufacturas Kaltex entered into a secured credit agreement with BNP Paribas Fortis Bank S.A. / N.V., as lenders in the amount of US$26.4 million. On March 2, 2012, BNP Paribas Fortis Bank S.A. / N.V. assigned this credit facility to AB Svensk Exportkredit. The credit facility had a final maturity date of January 9, 2022, and was paid in full on January 10, 2022.

Existing Notes

On April 11, 2017, Grupo Kaltex issued 8.875% Senior Notes due 2022 for US$320 million. Prior to the scheduled maturity of the Existing Notes we repurchased US$102 million of Existing Notes in the open market during 2021 and in early 2022. The Company did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022. As of June 30, 2022, US$218 million remained outstanding. See "Summary—Rationale for the Exchange Offer."

Capital Expenditures

As of June 30, 2022 and 2021, we made capital expenditures of Ps.78.2 million and Ps.72.4 million, respectively. These capital expenditures were primarily used for the purchase of textile machinery, increasing production capacity and modernizing our production process. We have a dedicated research and development department, which, in collaboration with our most important clients, helps us to develop potentially profitable products that can be introduced to the marketplace.

Contractual Obligations and Commercial Commitments

The following table sets forth our material contractual obligations and commercial commitments as of June 30, 2022:

	Weighted average effective interest rate	1 year	1 - 3 years	More than 1 year	Total
	(Amounts in thousands of Mexican pesos except for radios or percentages)				
Bank loans and long-term debt.....	8.875%	4,356,665	—	—	4,356,665

Off Balance Sheet Arrangements

As of June 30, 2022, we did not have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments

We have exposure to financial risk that involves capital, interest rates, foreign currency, credit and liquidity risks. The Board of Directors establishes and monitors policies and procedures to measure and manage those risks,

which are described below. The different categories of financial instruments and their amounts as of June 30, 2022, December 31, 2021, 2020, and 2019 are show below:

	As of December 31,			As of June 30,
	2021	2020	2019	2022
	(Amounts in thousands of Mexican pesos)			
Financial Assets:				
Cash and cash equivalents	225,755	180,392	398,730	198,607
At amortized cost:				
Accounts receivable, net	1,742,594	1,617,696	1,864,434	2,233,905
Accounts receivable to related parties	2,383	228,528	127,745	2,040
At fair value:				
Derivative financial instruments	—	—	67	—
Financial liabilities:				
At amortized cost:				
Bank loans and long-term debt	4,533,422	6,454,096	6,252,792	4,356,665
Accounts payable to suppliers	1,677,881	1,932,882	3,097,864	2,199,343
Accounts payable to related parties	3,133,762	3,677,231	3,585,060	3,212,149
Other payable accounts and accounts payable long term	740,115	860,193	1,424,571	760,112

Capital Risk

We manage our capital to ensure that we will continue as an ongoing business, while also maximizing the return to our shareholders through optimization of our capital balance through continuous monitoring of the debt/capital structure.

Grupo Kaltex management reviews monthly capital structure and borrowing costs compared to EBITDA when management presents financial projections as part of the business plan to the Board of Directors and our shareholders.

Foreign Currency Risk

The functional currency of the majority of the subsidiaries of Grupo Kaltex is the Mexican peso, which exposes us to foreign exchange risk of the Mexican peso against the U.S. Dollar and other foreign currencies. For the six-month period ended June 30, 2022, approximately 54% of our consolidated sales were denominated or linked to the U.S. Dollar and as of June 30, 2022, 100% of our consolidated indebtedness was denominated or linked to the U.S. Dollar, respectively. In addition, 52% of our consolidated operating costs for the six-month period ended June 30, 2022 were denominated or linked to the U.S. Dollar.

We also have monetary assets and liabilities denominated in foreign currencies, including the U.S. Dollar, Euro and Colombian peso, which are also exposed to currency risk, which is covered naturally with the same business operations. The table below reflects the book values of assets and liabilities denominated in foreign currencies to which we are exposed in each of the periods indicated:

	Liabilities			
	December 31,			June 30,
	2021	2020	2019	2022
	(Amounts in thousands)			
U.S. Dollar	449,115	681,807	681,733	458,281
Euro	2,786	3,289	2,759	2,828
Colombian peso	60,936,202	72,229,229	83,856,264	64,669,911
Swiss franc	97	—	—	60

	Assets			
	2021	December 31, 2020	2019	June 30, 2022
	(Amounts in thousands)			
U.S. Dollar	144,146	117,699	272,853	147,254
Euro	3,082	4,670	6,764	13,686
Colombian peso	6,814,132	10,068,146	31,915,214	3,279,189
Swiss franc	219	—	—	756

The following table details our sensitivity to an increase and decrease of 10% in the Mexican peso against certain key foreign currencies. The 10% rate used below is the sensitivity rate that we use internally for reports of foreign exchange risk and the below represents management's assessment of potential fluctuations in exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts translations at the end of the period for a 10% change in exchange rates. The sensitivity analysis includes external loans as well as loans to our entities with foreign operations where the denomination of the loan is in a currency other than the currency of the lender or the borrower (U.S. Dollar, Euro, and Colombian peso) currency.

A positive number (as shown in the table below) indicates an increase in our results where the Mexican peso strengthens by 10% against the relevant currency. If a weakening of 10% in the Mexican peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative (amounts in thousands):

	December 31,			June 30,
	2021	2020	2019	2022
	(Amounts in in thousands)			
U.S. Dollar	627,732	1,125,322	770,543	621,578
Euro	6,889	33,640	8,481	(22,739)
Colombian peso	24,724	32,793	27,095	27,009
Swiss Franc	2,742	—	—	(1,437)

Credit risk

Credit risk refers to the risk that one party will default on its contractual obligations resulting in a financial loss for us, and is mainly related to accounts receivable and liquid funds. Our credit risk with respect to cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by credit rating agencies. Our maximum exposure to credit risk is represented by the carrying amounts of financial assets. The other exposure to credit risk is represented by the balance of each financial asset principally in trade accounts receivable. We sell our products and / or services to customers who have demonstrated financial solvency, and periodically assess the financial condition of its customers and has insurance billing for domestic and export sales. Therefore, we do not believe there is a significant risk of loss. Additionally, we do not believe there is a significant concentration of credit on our customer base in the commercial sector. We believe that any potential credit risk is adequately covered by the allowance for doubtful accounts that represent our estimate of incurred losses in respect of impaired of accounts receivable.

Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue

for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

These modifications have not implied changes for us since we have no exposure to IBOR reference interest rates.

We implemented a series of new and modified IFRS, issued by the International Accounting Standards Board ("IASB") which are mandatory and came into force as of fiscal years beginning on or after 1 January 2021.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 after June 30, 2021, amendment to IFRS 16

In the prior year, we early adopted Rent Concessions under IFRS 16 due to issues related to COVID-19 (amendment to IFRS 16) which provides practical expedients for the accounting of concessions for lessees as a direct consequence of COVID-19, introducing a practical expedient to IFRS 16.

In March 2021, the IASB issued Lease Concessions related to COVID-19 after June 30, 2021 (amendment to IFRS 16). When the IASB issued amendments to IFRS 16 in May 2020, the lessor was allowed to apply the practical expedient of the rent concession for any reduction in lease payments affecting the original payments before or as of June 30, 2022. Due to the nature of the COVID-19 pandemic, the amendment extended a practical expedient to apply those original payments on or before June 30, 2022.

In the current financial year, we have applied the amendment to IFRS 16 (as issued by the IASB in May 2021) in advance of its effective date in the consolidated statement of income under other operating expenses.

The practical expedient permits a lessee to elect not to assess whether a COVID-19 related rental is a lease modification. A lessee that makes this election must account for any change in rental payments resulting from the COVID-19 related rental concession by applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rental awards that occur as a direct consequence related to COVID-19 and only if the following conditions are met:

a) The change in lease payments results in consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change.

b) Any reduction in lease payments only affects payments due on or before June 30, 2022 (a rental award meets this condition if it results in a reduction in payments before June 30, 2022 or increases lease payments that extend beyond June 30, 2022); and

c) There is no substantive change in any other term or condition of the lease.

Impact on accounting for changes in lease payments applying the exemption

We have applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B and has not restated prior period figures.

New and amended IFRS Standards that are not yet effective

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework

Amendments to IAS 16	Property, Plant and Equipment - before being used
Amendments to IAS 37	Onerous contracts - costs of complying with a contract
Annual Improvements to IFRS Standards 2018-2020	IFRS 9 Financial Instruments and IFRS 16 Leases
Amendments to IAS 1 and to IFRS 2 practice statements	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred taxes related to assets and liabilities arising from a single transaction

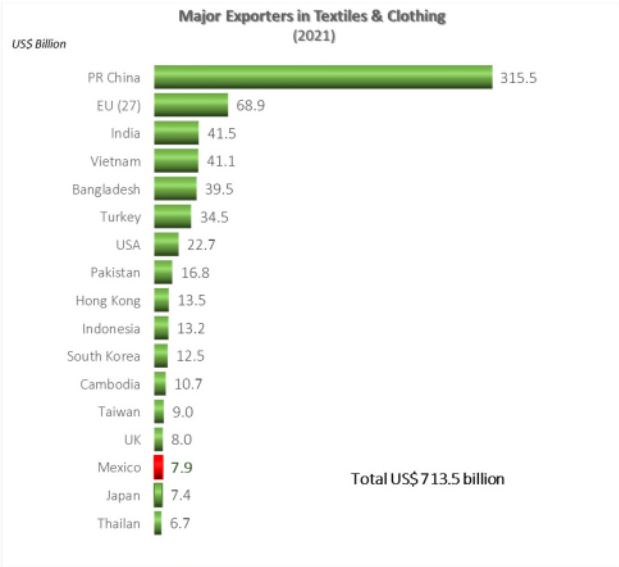
We do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

INDUSTRY

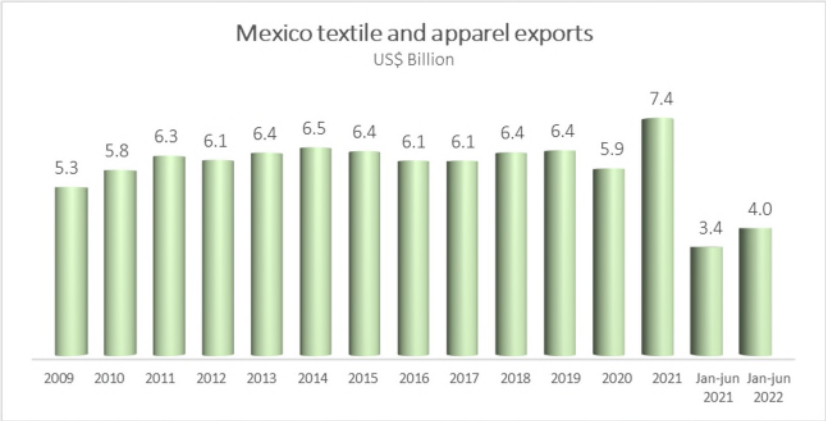
This section includes market share and industry and historic economic data and forecasts that we have obtained from industry sources, surveys and our internal estimates. There can be no assurance as to the accuracy or completeness of information based on our estimates or industry publications.

Overview

During the last decade, Mexico was a leading supplier of textile and apparel products in the Western Hemisphere, with a relatively integrated supply chain from fibers to end products. During the last year, Mexico has strengthened its position as a supplier in North America. Through its practice of "nearshoring," Mexico has been able to withstand the effects of the global supply chain disruption caused by the COVID-19 pandemic, increases in logistical costs, and geopolitical risks.



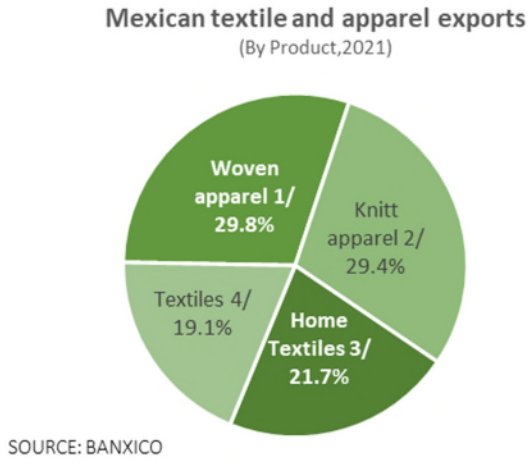
In 2021, the Mexican apparel and textile exports consisted of: 29.8% woven apparel, 29.4% knit apparel, 21.7% home textiles and 19.1% other textiles.

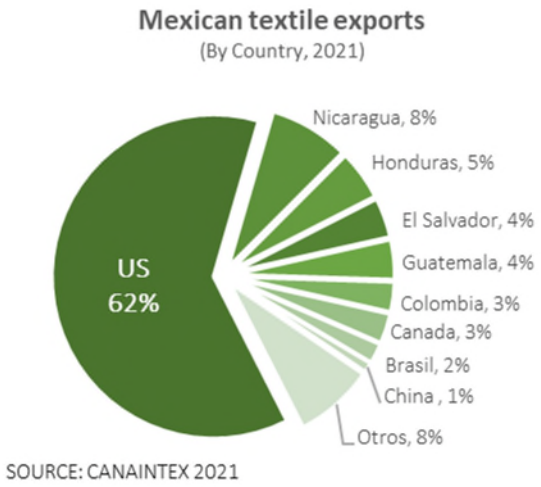


Source: Banxico

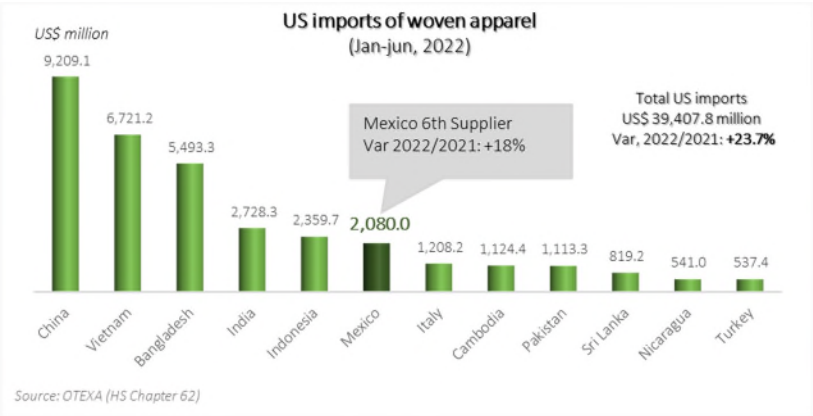
The export market for Mexican textiles is diversified. In 2021, North America represented 65% of all Mexican textile imports, Central America 21%, other Latin America countries 5%, China 1%, and other countries 8%

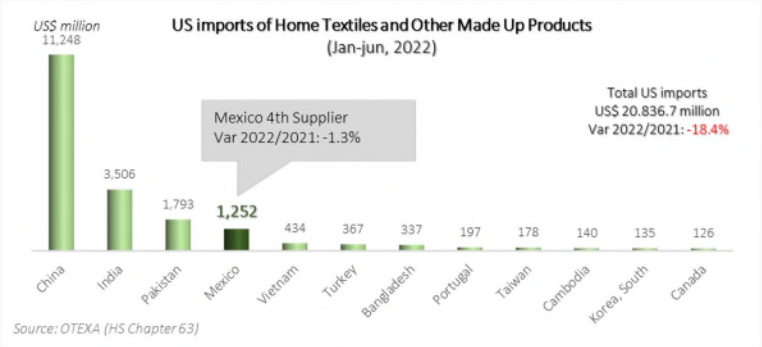
based on information published by the Mexican Chamber of Textile Industry (Cámara Nacional de la Industria Textil-CANAINTEX).



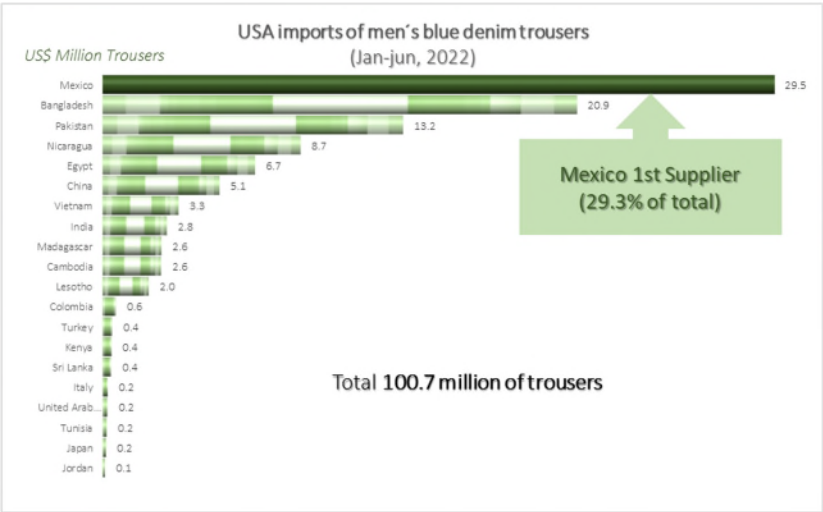


Mexico is one of the top suppliers to the U.S. market, occupying the fifth place as supplier of woven apparel and the fourth place as supplier of home textiles and other made up articles, during 2021.





It is important to mention, that Mexico has managed to keep its position as the number one supplier to the of blue denim trousers for men to the U.S. market, with a share of 33.6% of total imports of this product in 2021.



Grupo Kaltex plays a key role in the category of jeans, where is the third company exporting blue denim trousers for men in Mexico, but also the number one supplier of denim fabric for the sewing industry in Mexico and Central America countries.

Grupo Kaltex also occupies the first place as exporter of eiderdowns, quilts and other woven home textiles.

In 2021, the textile and apparel industries contributed to 6% of Mexico's manufacturing GDP and 7.2% of the employment in the manufacturing sector, with 409,665 individuals employed in that sector.

Gross domestic product (GDP)

USD Billions

	2019	2020	2021	TII-2022
Manufacturing industries	155.9	133.5	140.4	152
Textile and apparel industries	5.2	3.4	6.0	4.4
Textile	1.3	0.9	1.6	1.2
Apparel	3.1	1.9	3.5	4.4
Home Textiles and Other Made Up Products	0.7	0.6	0.9	0.6

Sources: INEGI: PIB (GDP) millions of Mexican pesos, current prices

BANXICO: Exchange rate MXP – USD: 2019= 18.85, 2020=19.95, 2021= 20.60

Employment

Number of Workers

	2019-Dec	2020-Dec	2021-Dec	2022- Apr
Manufacturing industries	5,450,985	5,438,831	5,712,820	N/A
Total Textile and apparel industries	443,085	396,639	409,665	420,967
Textile	128,287	115,118	131,214	134,709
Apparel	314,798	281,521	278,451	286,258

Source: CANAINTEX/IMSS

Mexico Competitive Advantages

Mexico presents strong advantages as manufacturer of textile and apparel products in the Western Hemisphere against its main competitors:

Certainty of market access

Mexico has become a gateway to worldwide markets, having 14 free trade agreements with 50 countries, including USA, Canada, European Union, Japan, Central America and South America countries, among others, which connect the Mexican economy to more than 1.3 billion consumers (60% of the world's GDP).

The USCMA, which has been effective since July 1, 2020, renewed the investment and trade partnership created by NAFTA during 26 years. It promotes deeper economic integration and gives certainty of duty free access to products manufactured in Mexico.

For example, imports of cotton trousers to the USA from Asian countries have an import duty of 16.6% (MFN), plus 7.5% additional import duty if the trousers are from China (under section 301), while Mexican products enter duty free to the USA under USMCA. USA tariffs against textile and apparel products of China are estimated not going away anytime soon, bringing new opportunities of the reconfiguration of supply chain where Mexico is a very good option.

The USMCA also stablishes high labor standards regarding rights of free association and collective bargaining as defined in Mexico's reformed Labor Law and the elimination of all forms of forced or compulsory labor and the effective abolition of child labor, that give certainty to brands/retailers sourcing in Mexico, about best labor practices implemented in our country. The measures adopted by USA to prohibit imports of textile and apparel products manufactured with cotton fiber of China´s Xinjiang Uygur Autonomous Region grown using forced labor, has created another opportunity for the Mexican industry and Grupo Kaltex, in particular, who uses 100% USA cotton fiber with total traceability from the gin to the final product and has become part of the US Cotton Trust Protocol.

Proximity to the USA: a renewal interest on nearshoring

Mexico's geographic position allows Mexican manufacturers to respond quickly to changes in demand and limit inventory costs, which is critical for the purposes of serving the "fast fashion" market, where fashion trends become more dynamic. The textile and apparel sector in Mexico is evolving to produce more value-added products, so that inexpensive labor is no longer the central driver for growth. Development of new products with a view to innovation, fashion, productivity, short lead time is driving higher sales and margins in this sector, to react quickly to changing conditions.

The trade war between the U.S. and China and recently, the COVID-19 pandemic and the productive disruption of supply chains and record high freight rates and constant shipping delays have brought back concerns of

brands and retailers about the need for a new strategy for more diversified, less risky, more resilient and shorter value chains to grow.

As global companies seek to diversify their supply chains, Mexico offers proximity to USA market, modern infrastructure, access to ports for global distribution and a highly skilled, well-educated workforce

The difference in time zones has always been a significant issue with offshoring and right now looks more attractive to manage a 3-hours maximum time difference, including a less travelling time and good connectivity between countries.

Another important consideration of manufacturing in Mexico is the capabilities to serve the domestic market, which is the second in Latin America.

Labor, Social and Environmental Compliance

The COVID-19 pandemic has resulted in a shift towards conscious consumption. The pandemic is also accelerating actions to combat climate change and promote initiatives about circularity and recyclability, to secure a brighter future for the next generations.

The textile and apparel industries are moving forward in the transformation of the business models to overcome the stigma as one of the largest polluters in the world, changing the way in which the industry thinks, designs, manufactures, sells, consumes, reuses and recycles. There is a renewed sense of urgency in the sector to act now in favor of the planet.

The 2021 Fashion Industry Benchmark Study of July 2021 indicates that the U.S.'s fashion companies are highly committed to sustainability and social compliance, and see the current challenging market environment as an opportunity to revisit their business practices and achieve more sustainable and ethical sourcing in the post-COVID-19 recovery.

There is also a consensus that in the near future there will be more government regulations regarding environmental compliance standards and mapping and supply chain mapping and transparency.

The following chart shows how Mexico and the rest of the Western Hemisphere have a stronger position regarding environmental, labor and social compliance than the competitors of China, Bangladesh, Indonesia, Cambodia.

Table 2-3 (A) Strengths and Weakness of Primary Sourcing Bases—by Country

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Risk of labor and social compliance	Risk of environmental compliance
Western Hemisphere	USA	4.0	2.0	3.0	3.5	3.5
	Mexico	3.5	3.0	3.0	3.0	3.0
	CAFTA-DR	3.5	3.0	3.0	3.0	3.0
	Colombia	3.0	3.0	3.0	3.0	3.0
Asia	China	3.0	3.5	4.0	2.0	2.5
	Vietnam	3.0	3.5	3.5	3.0	3.0
	Bangladesh	2.0	4.5	3.0	2.0	2.0
	Indonesia	2.5	3.5	3.0	2.5	2.5
	India	2.5	3.5	3.0	2.5	2.5
	Sri Lanka	2.5	3.0	3.0	3.0	3.0
	Cambodia	2.5	3.5	3.0	2.5	2.5
Rest of the world	Europe	3.0	2.0	3.0	3.5	3.5
	Turkey	3.0	3.0	3.0	3.0	3.0
	AGOA	2.0	3.5	2.5	2.5	2.5
	Egypt	2.5	3.5	3.0	2.5	3.0

Note: The results are based on respondents' average rating for each country on a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); ▲ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author's evaluation of each country.

Source: 2021 Fashion Industry Benchmark Study, July 2021

Sustainability is not just the latest trend for Grupo Kaltex, but rather it has been a strong value that has guided the company for the past 97 years. In particular, Grupo Kaltex has taken important actions to reduce greenhouse emissions; move towards eliminating the discharge of hazardous chemicals and effluents; and ensure fair labor practices.

BUSINESS

Overview

We believe we are one of the largest textile companies in Mexico and in the Americas, measured by volume. We also estimate that we are among the largest textile companies in the world measured by volume. To our knowledge, we are one of the few vertically integrated textile companies in the Americas and in the world. We are engaged in the design, manufacturing and commercialization of yarn, fabric, apparel and home products. We believe we are currently one of the top producers of denim in the world and one of the top purchasers of cotton in the Americas.

Our business commenced operations in 1925 by six brothers of the Kalach family, who began selling and buying textile products in Mexico. After more than 97 years, the Company continues to be controlled and operated by members of the Kalach family.

We offer a variety of textile products, ranging from yarn, piece dye and denim to garments, apparel and textile home products. We also manufacture eiderdowns, sheets, coverlets, bedspreads and bed accessories as well as kitchen accessories, including dishcloths, potholders, gloves, and carpets. We offer a full production package in apparel (including design, fabric development, pattern making, cutting, sewing, finishing, labeling, packaging, distribution and shipping) with an annual capacity of approximately 165 million meters of fabric.

Although a substantial portion of our production and confection operations are located in Mexico, we also have production and confection facilities in Nicaragua and Colombia (though currently not in operation). Through our distribution offices in the United States, Mexico and Colombia and through our sales agent in Europe and our sales broker in Asia, we have sales in and/or exports into North America, Central America, South America, Europe and Asia.

Our Company is organized in two main business units: Kaltex Textiles and Kaltex Internacional.

- ***Kaltex Textiles*** is primarily engaged in the manufacture of textile products through three subsidiaries, Manufacturas Kaltex, Kaltex Apparel and Kaltex Home. Manufacturas Kaltex is engaged in the manufacturing and distribution of different textile products, including the production of yarn and fabric. Kaltex Apparel is engaged in the manufacturing and distribution of finished garments. Kaltex Home produces textile home products. Our production capability includes plants with wash, permanent press and dye capabilities for finished garments. For the six-month period ended June 30, 2022, Kaltex Textiles accounted for 72% of our total consolidated sales (before intercompany eliminations), as compared to 58% for the first six-month period ended 2021. For each of the years ended December 31, 2021 and 2020, Kaltex Textiles accounted for 68% and 60% of our total consolidated sales (before intercompany eliminations).

- ***Kaltex Internacional*** is primarily engaged in the distribution in the United States of fabric and denim (through our subsidiary Kaltex America), the production of fabric for the fashion industry in Colombia (through our subsidiary Coltejer), and the distribution of textile products throughout South America (through our subsidiary Kaltex Colombia). For the six-month period ended June 30, 2022, Kaltex Internacional accounted for 28% of our total consolidated sales (before intercompany eliminations) as compared to 42% for the six-month period ended June 30, 2021. For the year ended December 31, 2021 and 2020, Kaltex Internacional accounted for 32%, and 40%, respectively of our total consolidated sales (before intercompany eliminations).

History and Evolution

We started operations in 1925, when six brothers of the Kalach family began selling and buying textiles in Mexico. In 1926 the Kalach family, through Textiles America, S.A., a trading company denominated, began converting raw materials into fabrics with small employee-owned textile mills. Over the course of the next 97 years, we expanded our operations to the manufacture of textiles, including the establishment of our first plants for the production of fabric and finished textiles in 1939 and 1956.

In 1986, we established Kaltex Home, a subsidiary of Kaltex Textiles, to focus on the manufacture of textile home products.

We have grown significantly in the last 20 years. During the 1990s, we implemented a strategic expansion plan to capitalize on the Mexican economic recovery and expanded our geographical presence to other regions, including the United States, Central America, South America and a small participation in Europe. Concurrent with this geographic expansion, we also diversified our product lines. In 1994, we began our apparel manufacturing operations through Kaltex Apparel, a subsidiary of Kaltex Textiles, with the construction of a plant with wash, permanent press and dye capabilities for finished garments. In 1996, we established our first denim plant, one of the most modern of its kind in the world. In 1997, our parent company changed its name to Grupo Kaltex. At that time, Grupo Kaltex and Kaltex Apparel began to offer a full range of finished garments.

With the goal of pursuing its strategic expansion plan, we have completed a number of acquisitions over the past 14 years. In 2008, we acquired Coltejer, a Colombian textile manufacturer which has operations in Colombia. Coltejer is now a part of Kaltex Internacional and an affiliate. In 2017, we acquired 100% interest in Kaltex Argus, S.A., a subsidiary of Kaltex Textiles, which is a private company located in Granada, Nicaragua primarily engaged in the production of finished garments. In 2014, we entered the energy sector by building an energy plant with an authorized capacity of 40 megawatts, which has reduced our energy costs by 30% since 2014. Since then, we've continued to modernize our machinery and equipment, and we expect to continue this modernization in the following years.

During 2020, we refocused our strategy to our core business, textile manufacturing. As a result, we have sold our retail business (Grupo Milano) and our brand business (Revman International). This decision was based on both companies' decreased profitability and integration levels that did not meet requirements of the group.

Today, we believe we are one of the largest integrated manufacturing textile companies in the Americas. In order to maintain and grow this strong market position, it is necessary to remain vigilant in order to identify potential opportunities to expand our operations into other attractive and complementary geographical markets with strong growth prospects. As we have done in the past, from time to time we will continue to analyze and consider such opportunities to support our growth in new markets.

Grupo Kaltex has over 97 years of experience in the textile industry

1925 – We are founded by the Kalach family as a textile distribution company.

1939 – We established our first textile factory 1956 – We started operating its first textile finishing plant.

1986 – We commenced exporting operations with great success.

1994 – Beginning of Kaltex Home and Kaltex Apparel with the construction of a laundry pressing and garment dying site.

1996 – We inaugurated one of the most modern denim plants worldwide.

2008 – Inorganic expansion to Colombia with the acquisition of Coltejer.

2010 – Inorganic expansion to Nicaragua with the acquisition of Kaltex Argus.

2012 – Inorganic expansion with the acquisition of the retail business.

2014 – Construction and start of operations of our energy plant

2020 – Re-definition of our strategy and sale of businesses.

Future – Back to our core business with special focus on growth, profitability and deleveraging.

Lines of Business

Kaltex Textiles

Kaltex Textiles has a number of subsidiaries which specialize in various aspects of our business. The following subsidiaries are under the umbrella of Kaltex Textiles:

- **Apparel**: Kaltex Apparel manufactures a variety of finished garments including denim products (primarily jeans), pants, skirts, shorts, capris, cargo pants, carpenter pants, casual pants and others. Kaltex Apparel participates in the entire process of production from the design, cutting, tailoring, finishing, and packing services of such products; clients include Levi Strauss & Co., Grupo Walmart, Liverpool and Suburbia.

- **Home**: Kaltex Home manufactures textile home products, including eiderdowns, sheets, coverlets, bedspreads, and bed accessories, in addition to kitchen accessories, including dishcloths, holders, gloves, and carpets; clients include Liverpool, Palacio de Hierro and Sears.

- **Manufacturas Kaltex (also referred to as Yarn & Fabric)**: The original core of the Kaltex family of companies, Manufacturas Kaltex is dedicated to the manufacture and sale of yarn, denim, piece dye and dyed fabrics, as well as woven products.

- **Kaltex Argus**: A wholly-owned Nicaraguan subsidiary of Manufacturas Kaltex. Kaltex Argus is focused on the production of finished garments and fabrics, including packaging, distribution and sale. Kaltex Argus operates as a completely vertical unit, finishing garments from fabric produced in Mexico, capitalizing on comparative advantages of a cross-border production process.

- **Kaltex Energía** is the supplier of energy to the manufacturing facilities of Manufacturas Kaltex. Kaltex Energía had net sales of Ps.240 million (2.2% of our consolidated net sales) for the six-month period ended June 30, 2022. For the six month-period ended June 30, 2022, our power plant located in Altamira, Mexico, which supplies energy to our manufacturing facilities in Mexico, provided for approximately 54% of our total energy needs in Mexico, resulting in energy costs saving of Ps.36 million.

Kaltex Textiles had net sales (including intercompany sales) of Ps.7,789 million (70% of our consolidated net sales) for the six-month period ended June 30, 2022.

Kaltex Internacional

Kaltex Internacional includes our distribution company in the United States for fabric, apparel and finished garments Kaltex America, Inc.

Kaltex Internacional had net sales of Ps.3,085 million (28% of our consolidated net sales) for the six-month period ended June 30, 2022.

Customers

We have established and maintained stable and long-term relationships (some of them for more than 30 years) with our key customers, including some of the largest retailers in United States and Mexico. For the six-month period ended June 30, 2022, we generated approximately 52% of our net sales (excluding intercompany sales) from our 10 largest customers. For the year ended December 31, 2021, we generated approximately 48% of our net sales from our 10 largest customers. The following table sets forth key data for our top ten global customers for the six-month period ended June 30, 2022:

Customer	Country	% of Total Sales	Currency	Product	Loyalty
LEEWRANGLER	US	12.2%	USD	Fabric	16 years
LEVIS	US/ Mexico	10.5%	USD/MXN	Apparel	22 years
CARHARTT INC.	US	9.2%	USD	Fabric	15 years
VF[1]	US	6.4%	USD	Fabric	16 years
FLYNN ENTERPRISES	US	4.5%	USD	Fabric	16 years
DISTRIBUIDORA MOYEL	Mexico	3.6%	MXN	Fabric	29 years
ARAMARK	US	1.6%	USD	Fabric	7 years
GROUP BUYING GLOBAL	Mexico	1.6%	MXN	Fabric	9 years
ASSIS TU VESTIR SA DE CV	Mexico	1.3%	MXN	Fabric	12 years
SATEX TEXTIL SA DE CV	Mexico	1.3%	MXN	Yarn	5 years
		52.2% Total			**14.7 years Average**

(1) VF's brands portfolio includes The North Face, Vans, Timberland, Supreme, among others.

Raw Materials

Cotton

Cotton purchases represent a substantial amount of our cost of textile manufacture, constituting 26% of our costs for the year ended December 31, 2021, and 33% for the six-month period ended June 30, 2022. We are one of the top five cotton purchasers by volume in the Americas. We obtain 100% of our cotton from the United States. As a result, we have several strategies in place to manage risk and to mitigate potential losses, including a hedging strategy. We believe we are able to absorb the effect of minor changes in cotton prices within our various subsidiaries, given the diversity of our products and flexibility in raw material mix. We also believe we are able to pass along more significant fluctuations in cotton prices to our customers with a 90-day lag. Historically, we have not experienced delivery delays with our 15-day inventory of cotton, chemicals and colorants, which also allows us to be efficient in our management of costs as we can increase or decrease our manufacturing or distribution as necessary and adapt our needs at the end of such period accordingly without disrupting our supply chain operations. Additionally, we implemented cotton recycling initiatives with the aim to recycle +15,000 yearly tons, which have led to average savings of US$27 million annually (or 20% of Grupo Kaltex's annual cotton purchase) from 2017 to 2021.

Chemicals

Other chemicals represented approximately 11% of our costs of production in the first six-month period of 2022.

Energy

We established Kaltex Energía in September 2014 through its subsidiary Energía MK KF, S.A. de C.V., which began operations in the second quarter of 2014 with a combined heat and power plant. With the establishment of Kaltex Energía, we have been able to gain a competitive advantage through long-term savings in the cost of energy for our operations as we can purchase energy at a lower cost than from third parties. This investment has also enabled us to reduce greenhouse gas emissions and increase efficiency for our plants across the board.

Concession titles and permits obtained before September 30, 2014 are subject to the Law of Public Service for Electric Power (*Ley del Servicio Público de Energía Elétrica*), which establishes the legal framework that regulates the generation, distribution and supply of electric power. On August 12, 2014, the Electric Industry Law came into

effect. Both the Law of Public Service for Electric Power and the Electric Industry Law allow third parties to participate in the production of energy. On March 9, 2021, certain amendments to the Electric Industry Law were enacted in the Official Gazette, but the effect of such amendments has been suspended since March 24, 2021. However, the regime in effect prior to September 30, 2014 is applicable to our power plant, and our compliance procedures, are designed for this set of regulations.

Competition

Our main competitors in the production of textiles are the International Textile Group in the United States, Cone Denim LLC in Mexico, Tavex, Santana, and Vicunha in Brazil and Fabricato in Colombia.

With respect to the production and sale of our products, sales abroad represented 55% of our revenue for the six-month period ended June 30, 2022. Thus, we compete with both national and international companies alike. Our principal competitors in Mexico in the export of textiles are the following companies: Industrias del Interior (INISA), Rio Sul, Ropa Siete Leguas, Apparel International, Single Source, AALFS Manufacturing, PL Industries, and Santa Mónica. Internationally, we compete with the following companies in their respective regions: Grupo M (República Dominicana and Haiti); Denimatrix (Guatemala); General Sportswear (Nicaragua), AALFS (Nicaragua), Rocedes y Grupo Denim (Nicaragua); CI Jeans (Colombia), CI Expofaro (Colombia), CI El Globo (Colombia) and CI Denim Factory (Colombia).

In connection with the production and sale of home goods through Manufacturas Kaltex, we have a number of competitors in bed and bath products. In the low and medium-low income segments of the market, our primary competitors in the bedding products space are Grupo Textil Providencia, La Palestina, Iztaccihuatl, Euro Blanc, Rocha Textiles, Textil Manchester, Tejidos y blancos de la Casa, Blancos Pileso, 926, Carokj, Grupo Textil Mazal and Mosley, and our primary competitors in the bath products space are La Heredera, Towel, Hilasal Mexicana, Toallera Popular, Cia. Industrial Tepeji del Rio and Maritex. In the medium-high and high income segments of the market, our primary competitors in the bedding products space are Grupo Textil Providencia, Textil Manchester, Skytex, Textiles Centroamericanos, Fiore, Deseños Mayro, Distribuidora Mesel, Dalfiori, Parker Home, Íntima, Vianney, Grupo Zet, Colchas el Elefantito, San Pedro de Acapulco, and Concepto e Imagen Maisa, and our primary competitors in the bath products space are Hilasal Mexicana, La Palestina and Toallera Popular.

Although these companies compete with us for customers in particular market segments (such as geographical areas, income segments or for specific product and business units), we believe we are the only vertically integrated textile company in the Americas, and one of the few fully integrated textile companies in the world. As a result, we have retained a strong competitive advantage against our competitors.

Intellectual Property

We own 51 trademarks, one patent application and several licenses. We consider our patents, patent applications, licenses, trademarks and trade names to be valuable. However, we do not believe that a loss of any of these rights would have a material adverse effect on our business. We do not believe that any single patent, trademark or trade name is material to our business as a whole.

Environmental and Other Government Regulation

Our businesses are subject to a broad range of laws and regulations generally applicable to manufacturing businesses. These laws and regulations include environmental, health and safety, transportation, anti-corruption, labor, customs, export controls and trade sanctions, employment and labor, government contracts and intellectual property, among others.

Environmental

We are committed to controlling all of our activities, products and services to prevent the contamination of the environment and to comply with all legal requirements. Our objectives and goals are established based on meaningful environmental programs and are reviewed periodically. We aim to continuously improve our environmental management system to comply with the ISO 14001 International Standard. We take a proactive approach with respect to compliance with all environmental laws and regulations, municipal, local, state and federal,

as they relate to our manufacturing operations. We believe that we are in material compliance with all currently applicable laws and regulations and have timely submitted applications for any outstanding licenses, permits and registries for our operating plants from governmental entities.

Our water treatment plant in San Juan del Río, Querétaro, is one of the largest private plants in Latin America, with fully automated controls and operation. We believe our water treatment plant complies in all material respects with the conditions set forth by the environmental authorities and Mexican regulations, including the applicable Mexican official standards. In 2003, we earned an ISO 14001 certification, which has been recertified four times to date. In 2004, we chose to further improve the effectiveness of our operations at our water treatment plant, and earned the *Certificado de Calidad de Agua,* or the Certification of Water Quality, which has been recertified 12 times to date.

The majority of our manufacturing sites in Mexico have been certified as "clean industry" by the Mexican Environmental Protection Agency (*Procuraduria Federal de Protección al Ambiente*) or is in the process of completing clean industry certification.

We additionally run a program for the retrieval of rubber used in our fabric plants that would otherwise be contained in drainage run-off, and a system for the retrieval of gas released in the production of fabric. Finally, we have implemented a program to replace the use of any chemicals and dyes that do not comply with environmental laws and regulations.

We promote waste separation, recycling, landfill for biogas production, water treatment and efficient use of utilities including water, electricity and gas.

Our operations are subject to the Mexican General Law of Ecological Balance and Environmental Protection (*Ley Federal del Equilibrio Ecológico y la Protección al Ambiente)*, which establishes the legal framework that governs the preservation, restoration and protection of the environment in Mexico. In addition, we are subject to numerous federal, state and municipal environmental, health and safety laws, regulations and official standards of various jurisdictions governing, among other things, land use and construction licenses, environmental impact and risk, the generation, storage, handling, use and transportation of urban, waste and hazardous materials, the responsible use of water, the emission and discharge of hazardous materials into the ground, air or water, and the health and safety of our employees. We are required to obtain environmental permits and make environmental filings for many of our operations from governmental authorities at the federal, state, municipal and local level, either individually or concurrently. These authorities can modify or revoke our permits, may interpret environmental laws and regulations differently or may impose additional conditions in respect of permits, and can enforce compliance through fines, injunctions, or closure for non-compliance. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. If we violate or fail to comply with these laws, regulations and permits, or such laws, regulations and permits are interpreted differently from our interpretation, we could be subject to fines, our manufacturing facilities could be temporarily closed or otherwise sanctioned by regulators and we could be criminally prosecuted in the event of environmental damage. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage, including any investigation and remediation of contamination.

Certain environmental laws assess liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances or waste. In addition to remediation actions brought by federal, state, municipal and local agencies, plaintiffs could raise personal injury or other private claims due to the presence of hazardous substances or waste on a property. Certain environmental laws impose liability even if the owner or operator did not know of, or was not responsible for, the release of hazardous substances or waste. In addition, persons who arrange for the disposal or treatment of hazardous substances or waste may be responsible for the cost of removal or remediation of these substances, even if such persons never owned or operated any disposal or treatment facility.

Safety and Quality Control

Our operations are subject to the federal and state laws and regulations of the countries in which we operate relating to the protection of our employees and contractors. We believe we are in compliance with all such laws and regulations. We are committed to promoting the health and safety of our workers and others involved in or affected by our operations and have developed and implemented an integrated health and safety management system. As part

of this system, each of our Mexican facilities is equipped with advanced equipment to prevent risks in operation, providing safety and health conditions for workers, like our fire detection and extinguishing systems.

Regular external audits are conducted to assess the effectiveness of our internal health and safety practices. We have been in compliance in all material respects with such audits in the past. In addition, we are committed to protecting the environment and the health and safety of the communities in which we operate. Accordingly, we collaborate with local governments, advocacy organizations and industry and public interest groups to promote a culture of continuous improvement in environment, safety and health. We believe we are in compliance, in all material respects, with the safety laws of Mexico.

Insurance

We are insured against three key categories of risk: (i) property and business interruption; (ii) cargo insurance (transportation); and (iii) general and product liability.

Our all-risk policy insures property and protects us against business interruptions caused by floods, hurricanes and other weather conditions, earthquakes, machinery breakdown and other catastrophic events. Our cargo policies provide coverage for all import and export merchandise under our responsibility, such as raw materials, inventories and products, whether shipped by air, land and/or sea. We also maintain general liability policies that provide coverage against claims for damage to third parties; under this policy, our operations, properties, products and individuals are included. In addition, each subsidiary maintains other insurance policies as necessary to comply with local regulations or specific needs, such as commercial auto, workers' compensation, environmental liability, etc.

We believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to automotive companies operating in the regions in which we operate and do not anticipate having any difficulties in renewing any of our insurance policies.

Legal Proceedings

In the ordinary course of our business, we have been involved in various disputes and litigation claims. This includes a number of labor proceedings, all of which are individual labor claims.

While the results of any such proceedings cannot be predicted, we do not believe that there are any pending or threatened actions, suits or proceedings against or affecting us which, if determined adversely to us, would in our view, individually or in the aggregate, materially harm our business, financial condition or results of operations.

Employees

As of June 30, 2022, we had a total of 11,017 full-time employees, including 11,000 full-time employees in Mexico and 17 full-time employees in the United States.

94% of our employees are members of local or national unions in México. We believe our relationships with our unions are positive. We have not experienced any strikes in the history of the company.

The following chart illustrates the distribution of our employees by local sites, international sites and administrative staff as of June 30, 2022:

	Employees
Local Sites	
Tepeji del Río, Hidalgo……..	4,859
San Juan del Río, Querétaro……	3,558
Amealco, Querétaro……	1,257
Naucalpan, Estado de México…….	78
Jilotepec, Estado de México……	526
Altamira, Tamaulipas……..	364
Sub-Total……..	10,642

	Employees
International Sites	
New York, USA…….……..	17
Sub-Total……	17
Administrative Staff	
Grupo Kaltex (Administrative Staff)	358
Sub-Total……	358
TOTAL……...	11,017

MANAGEMENT

Board of Directors

The following table shows the members of the board of directors of Grupo Kaltex, Kaltex Textiles. The Company holds quarterly meetings of the Board of Directors. The most recent shareholders meeting of Grupo Kaltex was held on July 28, 2022, and ratified the following board members, except as otherwise indicated:

Name	Age	Position in the Board of Directors
Rafael M. Kalach Mizrahi	76	President
Adolfo Kalach Mizrahi	68	Director
David Kalach Mizrahi	66	Director
Rafael Kalach Atri	64	Director
Marcos Kalach Mizrahi	64	Director
José Kalach Atri	61	Director
Alfredo Kalach Atri	55	Director
Adolfo Ernesto Arrioja Vizcaíno	77	Secretary

Certain biographical information with respect to our Board of Directors is set forth below:

Rafael M. Kalach Mizrahi holds an accounting degree from Universidad Nacional Autónoma de México. He is the President of the Board of Directors of Kaltex Comercial and Kaltex Textiles as well as Grupo Kaltex and General Manager of Coltejer. He is a member of the Board of Directors of Grupo Carso, S.A B. de C.V., Sears Operadora de México, S.A. de C.V. and Teléfonos de México, S.A.B. de C.V. (Telmex). He was a member of the Mexican Institute of Public Accountants and has served on the boards of Banco Nacional de Mexico and Acciones y Valores Banamex Casa de Bolsa, Integrante del Grupo Financiero Banamex, the consulting committee of Multibanco Mercantil de México (now BBVA Bancomer, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer "BBVA Bancomer"), the consulting committee of BBVA Bancomer. He is a member of the audit, finance and compensation committees of Teléfonos de México, S.A.B. de C.V. and of Grupo Carso, S.A.B. de C.V. He has held his current position in Grupo Kaltex since 1982.

Adolfo Kalach Mizrahi holds an MBA from University of Southern California in Los Angeles. He has been a director of Grupo Kaltex since February 2001. He is a member of the Board of Directors of the National Textile Association (CONANTEX) and of the FICSAC Board of Universidad Iberoamericana, A.C. He is the former President of the National Textile Chamber and a former member of the Board of the Jewish Community of Monte Sinai.

David Kalach Mizrahi has been a director since February 2001. He is currently the Treasury Director of Grupo Kaltex.

Marcos Kalach Mizrahi holds a law degree from Universidad Iberoamericana, A.C., and an MBA from Instituto Panamericano de Alta Dirección de Empresas ("IPADE"). He has been a director of Grupo Kaltex since February, 2001. He is President of the alumni association of MBA graduates of IPADE.

Rafael Kalach Atri holds a bachelor's degree in business administration. He has been a director of Grupo Kaltex since February, 2001. He has served on the Board of Directors of Promotora Musical, S.A. de C.V. (Mixup) since 2009.

José Kalach Atri holds a bachelor's degree in Industrial Engineering from Universidad Anáhuac. He is currently a Vice President of Grupo Kaltex and has been a director of Grupo Kaltex since February, 2001.

Alfredo Kalach Atri holds a bachelor's degree in Computer Science from Universidad Anáhuac. He is currently the Corporate Credit and Accounts Receivables Manager and has been a director since February 2001.

Adolfo Ernesto Arrioja Vizcaíno holds a degree in Law from Universidad Nacional Autónoma de México, with a Master's degree from the Universidad Iberoamericana and Doctorate in Law (Honoris Causa), from the

University of Newport, California, United States. He is a consultant, litigator and the managing partner of the firm Arrioja Abogados, S.C. (1978). He also serves as an independent director of the Governing Board of the Taxpayer's Defense Attorney's Office (P*rocuraduría de la Defensa del Contribuyente*). He has been Professor of Tax Law, Administrative Law and Political Science at the Law School of Universidad Nacional Autónoma de México, Universidad Iberoamericana and Universidad Panamericana. He has lectured on legal and historical issues at the University of Stockholm, Sweden, at the Universities of Szeged and Miskolk in Hungary, as well as before the New York Bar.

Executive Officers

Our executive officers are the following persons:

Name	Age	Position and Company
Rafael M. Kalach Mizrahi	76	Chief Executive Officer
Adolfo Kalach Mizrahi	68	Chief Operating Officer

See above for biographical information relating to Rafael M. Kalach Mizrahi and Adolfo Kalach Mizrahi.

Management Team

See above for biographical information relating to Rafael M. Kalach Mizrahi, Adolfo Kalach Mizrahi, and Jose Kalach Atri.

Hebe Schecter is a Director of Kaltex America since 2015. She started her career with Kaltex in 1994, working on the fabrics, apparel and home textiles divisions. She previously held senior management positions including CFO and COO of Kaltex America.

Alfredo Mora Arana is a Director of Kaltex Energía since 2001. He has held various senior management positions in Grupo Kaltex. He has over 40 years of experience in the synthetic fibers manufacturing and acted as COO of Hoechst-Celanese.

Board Observer

The terms of the New Notes Indenture provide that, for so long as any New Notes are outstanding, the holders of a majority in principal amount of the outstanding New Notes shall have the right (but not the obligation), in their sole discretion, to designate one individual as a board observer in accordance with the provisions of the New Notes Indenture. See "Description of New Notes—Certain Covenants—Board Observer."

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal Shareholders

Grupo Kaltex is a privately held company headquartered in Naucalpan de Juárez, Estado de Mexico, Mexico. Members of the Kalach Mizrahi family indirectly control approximately 64% of our capital shares and members of the Kalach Atri family indirectly control approximately 36% of our capital shares. See "Management" for a description of Grupo Kaltex's Board of Directors.

Related Party Transactions

From time to time, we may enter into transactions with parties that have relationships with officers, directors or entities in which we have an ownership interest. It is our policy to conduct these transactions on an arm's-length basis, subject to certain exceptions, such as related party transactions that (i) by reason of their economic value, can be considered non-material for our company and our affiliates, (ii) are carried out in the ordinary course of business and on an arm's-length basis, and (iii) are carried out with employees on terms that are substantially the same as the terms of transactions carried out with non-related third parties or as a result of general employee-related contractual obligations. We have entered into related party transactions, and we are likely to continue to enter into similar transactions with related parties in the future, subject to the applicable provisions of the New Notes Indenture. For further information regarding our related party transactions, please see Note 20 to the Audited Financial Statements, Note 13 to the Unaudited Interim Financial Statements and "Risk Factors—Risks Relating to Our Business—We have entered into related party transactions and will continue doing so in the future."

THE EXCHANGE OFFER

Background and Purpose

On the date of this Exchange Offer Memorandum, we have launched the Exchange Offer, as part of which we would, among other things, exchange the Existing Notes for New Notes, subject to the Exchange Offer Cap. The exchange of the Existing Notes for the New Notes pursuant to the Exchange Offer is subject to, among other things, the Minimum Tender Condition and the Financing Condition, which we may waive in full or in part in our sole discretion, but subject to the terms of the Transaction Support Agreement.

The principal objective of the Exchange Offer is to refinance up to US$118 million in aggregate principal amount of the Existing Notes. We did not pay the outstanding principal amount due on the Existing Notes at their maturity on April 11, 2022 and do not currently have the means to repay such amount or any future amounts that may become payable under the Existing Notes. We believe that the completion of the Exchange Offer is critical to resolving our constrained liquidity and ensuring our continued viability.

We entered into a Transaction Support Agreement between us, the Existing Guarantors, the New Notes Guarantors, and the TSA Supporting Noteholders, whereby the TSA Supporting Noteholders agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. In addition, we entered into Additional Holder Letter Agreements between us, the Existing Guarantors, the New Notes Guarantors, and each of the Additional Supporting Noteholders, whereby the Additional Supporting Noteholders have agreed to tender their Existing Notes in the Exchange Offer subject to the terms and conditions set forth therein. The Supporting Noteholders have agreed with us to support the Exchange Offer, subject to certain conditions set forth in the Transaction Support Agreement, including (i) the funding of the Concurrent Loan Facility (as defined herein), (ii) as of the Expiration Date, Additional Supporting Noteholders having validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) US$22.0 million in aggregate principal amount of Existing Notes, and (iii) the repayment in full on the Settlement Date of any Existing Notes that are not exchanged in the Exchange Offer. The Transaction Support Agreement also contemplates a contractual commitment from certain Supporting Noteholders to purchase up to US$20,000,000 in principal amount of New Notes (such commitment to be reduced on a dollar-for-dollar principal amount basis to the extent that more than US$98,000,000 principal aggregate amount of New Notes would be issuable in the Exchange Offer pursuant to valid tenders of Existing Notes in the Exchange Offer), at a purchase price payable in U.S. Dollars of 100% of the principal amount thereof, pursuant to the Funding Commitment Letter.

You should carefully review the information included under "Risk Factors." You should understand that an investment in the New Notes issued pursuant to the Exchange Offer involves a high degree of risk, including the significant possibility of loss of a significant portion of your investment in the New Notes.

Terms of the Exchange Offer

We are offering each Holder of the Existing Notes, upon the terms and subject to the conditions set forth in this Exchange Offer Memorandum, to exchange up to US$118 million aggregate principal amount of our outstanding Existing Notes for (i) up to US$118 million principal amount of New Notes and (ii) cash as described herein.

Subject to the Exchange Offer Cap, for each US$1,000 in principal amount of Existing Notes, tendering Holders of Existing Notes whose Existing Notes are accepted for exchange by us will receive, on the Settlement Date, (i) US$1,000 in principal amount of New Notes, (ii) the Accrued Interest Payment, and (iii) the Exchange Premium.

No other payments, including in respect of principal, interest (including accrued or default interest other than the Accrued Interest Payment as described above) or additional amounts (if any), will be required to be paid to Holders.

The Existing Notes may be tendered only in denominations of US$200,000 principal amount and integral multiples of US$1,000 in excess thereof, and the acceptance of Existing Notes for exchange may be subject to proration as described below. The New Notes will only be issued in minimum denominations of US$1,000 and any integral multiple of US$1.00.

In the event that the aggregate principal amount of Existing Notes validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) in the Exchange Offer exceeds such aggregate principal amount as

would cause the aggregate principal amount of New Notes to be issued in the Exchange Offer to exceed the Exchange Offer Cap, then tenders of Existing Notes shall be accepted for exchange by us on a prorated basis, with the prorated aggregate principal amount of each holder's validly tendered Existing Notes accepted for exchange rounded down to the nearest US$1,000. Any Existing Notes validly tendered and not accepted for exchange as a result of such proration shall be redeemed in full (including accrued and unpaid interest on such Existing Notes from, and including, April 11, 2022 to, but excluding, the Settlement Date) by the Company on the Settlement Date and all other obligations under the Existing Notes Indenture shall be discharged. Therefore, if the Exchange Offer is consummated, on the Settlement Date, the full outstanding aggregate principal amount of the Existing Notes shall be either be exchanged for New Notes or repaid in cash. This Exchange Offer Memorandum shall not constitute a notice of redemption under the Existing Notes Indenture, no assurances can be given that the Exchange Offer (including the repayment of all or any portion of the Existing Notes) will be consummated in its terms or at all, see "Risk Factors—Risks Relating to the Exchange Offer."

The New Notes will mature on September 30, 2025 and are our direct senior obligations. Interest on the New Notes will accrue from the Settlement Date and will be payable on April 11 and October 11 of each year, beginning April 11, 2023. Interest on the New Notes will accrue at the rate of 14.500% per annum payable in respect of the outstanding principal amount of the New Notes (up to 1.500% of which may, at the Company's option, be paid in the form of PIK Notes). An interest payment partially paid in the form of PIK Notes shall be made through the issuance of an aggregate principal amount of New Notes equal to the amount of the relevant interest payment that is being paid in kind. PIK Notes shall have the same terms as, and shall be fungible with, the other outstanding New Notes.

The Exchange Offer is conditioned on the satisfaction or waiver (subject to the terms of the Transaction Support Agreement) of the Minimum Tender Condition and the Financing Condition. For more information about conditions to the Exchange Offer, see "—Conditions to the Exchange Offer." There can be no assurance that such conditions will be satisfied or waived. Subject to certain limitations and the terms of the Transaction Support Agreement, the Company reserves the right to waive the conditions to the Exchange Offer and to extend, terminate, cancel or otherwise modify or amend the Exchange Offer in any respect.

Holders who want to participate in the Exchange Offer must tender their Existing Notes. Subject to the Exchange Offer Cap, the New Notes will be delivered in exchange for outstanding Existing Notes accepted in the Exchange Offer on the Settlement Date.

The Existing Notes may be exchanged only in denominations of US$200,000 principal amount and integral multiples of US$1,000 in excess thereof, and the acceptance of Existing Notes for exchange may be subject to proration as described below. The Company will be deemed to have accepted validly tendered Existing Notes in the Exchange Offer when, as and if they have given oral or written notice thereof to the Information and Exchange Agent. The Information and Exchange Agent will act as agent for the tendering Holders for the purposes of receiving New Notes. The New Notes will be delivered in exchange for Existing Notes accepted in the Exchange Offer on the Settlement Date.

The deadline by which the Information and Exchange Agent must receive tenders of Existing Notes via ATOP is the Expiration Date.

The Exchange Offer will expire on the Expiration Date. We may, in our sole discretion, subject to the Transaction Support Agreement, terminate prior to the Expiration Date the Exchange Offer described herein. See "—Expiration Date; Extensions; Termination; Amendments." If the conditions to the Exchange Offer are satisfied or waived, the Company will, subject to the Exchange Offer Cap, accept validly tendered Existing Notes for exchange pursuant to the Exchange Offer on the Expiration Date and settle the Exchange Offer on the Settlement Date.

If the Exchange Offer is consummated, the Company or any of its affiliates may purchase New Notes in the market or in negotiated transactions at any time (in any manner and at any price); provided that (i) any such purchased New Notes shall not be resold, and (ii) once purchased, such purchased New Notes will not be counted as outstanding in determining the principal amount of New Notes that has given their consent or vote under the New Notes Indenture.

Although there is no obligation to do so, if the Exchange Offer is not consummated, the Company or any of its respective affiliates reserves the right in the future to seek to acquire Existing Notes, other than pursuant to this Exchange Offer, by means of open market purchases, privately negotiated acquisitions, subsequent exchange or tender

offers, redemptions or otherwise, at prices or on terms that may be higher or lower or more or less favorable than those in this Exchange Offer.

Holders who tender in the Exchange Offer will not be required to pay brokerage commissions or, subject to the instructions in the Agent's Message, transfer taxes with respect to the exchange of Existing Notes pursuant to the Exchange Offer. Holders who tender their Existing Notes through a broker, dealer, commercial bank, trust company or other custodial entity may be required to pay a commission or a service charge. The Company will pay all fees, charges and expenses, other than such commissions or service charges and certain applicable taxes, in connection with the Exchange Offer. See "—Fees and Expenses."

If you wish to tender your Existing Notes into the Exchange Offer, you must follow the procedures described under "Procedures for Holders Exchanging Existing Notes" below. If your Existing Notes are registered in the name of a broker, dealer, commercial bank, trust company or other custodial entity, you must contact that institution to exchange your Existing Notes.

This Exchange Offer Memorandum contains various terms and conditions that are part of the Exchange Offer. Accordingly, Holders should read this Exchange Offer Memorandum carefully.

Expiration Date; Extensions; Termination; Amendments

The Exchange Offer will expire at 11:59 p.m., New York City time, on December 12, 2022, unless extended or earlier terminated. The Company reserves the right to extend the Exchange Offer, from time to time, at its discretion, in which event the term "Expiration Date" shall mean the latest time and date at which the Exchange Offer, as so further extended, shall expire. The Company shall notify the Information and Exchange Agent of any extension by oral or written notice and shall make a public announcement thereof, as described herein. Such announcement would state that the Company is extending the Expiration Date for a specified period.

The Company expressly reserves the right, at any time or from time to time, regardless of whether or not the conditions set forth in "Conditions to the Exchange Offer" shall have been satisfied, subject to applicable law and the terms of the Transaction Support Agreement,

(i) to extend the Expiration Date,

(ii) to amend the Exchange Offer in any respect,

(iii) waive all unsatisfied conditions, or

(iv) to terminate the Exchange Offer prior to the Expiration Date,

in each case by giving written notice of such extension, amendment or termination to the Information and Exchange Agent. If we modify or extend the terms of the Exchange Offer, withdrawal rights will only be provided as may be required by applicable law.

There can be no assurance that the Company will exercise its right to extend the Expiration Date. Any extension, amendment or termination will be followed as promptly as practicable by a public announcement thereof, with the announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the first business day after the previously scheduled Expiration Date. Without limiting the manner in which the Company may choose to make any public announcement of any extension, amendment or termination of the Exchange Offer, the Company shall have no obligation to publish, advertise or otherwise communicate any such public announcement, other than by making a timely press release in accordance with applicable law.

Minimum Denominations

Existing Notes may be tendered only in principal amounts equal to minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Holders who do not tender all of their Existing Notes must ensure that they retain a principal amount of the Existing Notes amounting to at least the minimum denomination. If proration causes the Company to return less than the minimum denomination to any Holder, then the Company will,

at its option, either accept all or reject all of the tendered amount of such Holder's tendered Existing Notes such that it holds either no Existing Notes or at least the minimum denomination of Existing Notes following the consummation of the Exchange Offer. In addition, to avoid purchases of New Notes in principal amounts other than integral multiples of U.S.$1,000, if necessary, we will make appropriate adjustments to the nearest U.S.$1,000 principal amount with respect to each Holder who is subject to proration and validly tenders (and does not validly withdraw) Existing Notes in the Exchange Offer. All Notes not accepted as a result of proration will be rejected from the Exchange Offer and will be promptly returned to the tendering Holder.

Proration

In the event that the aggregate principal amount of Existing Notes validly tendered (and not validly withdrawn prior to the Withdrawal Deadline) in the Exchange Offer exceeds the Exchange Offer Cap, then tenders of Existing Notes shall be accepted for exchange by us on a prorated basis, with the prorated aggregate principal amount of each Holder's validly tendered Existing Notes accepted for exchange rounded down to the nearest US$1,000. If proration causes the Company to return less than the minimum denomination to any Eligible Holder, then the Company will, at its option, either accept all or reject all of the tendered amount of such Eligible Holder's Existing Notes such that either no Existing Notes from such Eligible Holder are accepted for exchange or at least the minimum denomination of such Existing Notes is accepted for exchange. Any Existing Notes validly tendered and not accepted for exchange as a result of such proration shall be redeemed in full on the Settlement Date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the Exchange Offer Memorandum, with respect to the Exchange Offer, we will not be obligated to (i) accept for exchange any validly tendered Existing Notes or (ii) issue any New Notes in exchange for validly tendered Exchange Notes, pay any cash amounts or complete the Exchange Offer, unless each of the following conditions is satisfied at or prior to the Expiration Date, as the case may be:

(1) there shall not have been instituted, threatened or be pending any action, proceeding, application, claim, counterclaim or investigation (whether formal or informal) (or there shall not have been any material adverse development to any action, application, claim, counterclaim or proceeding currently instituted, threatened or pending) before or by any court, governmental, regulatory or administrative agency or instrumentality, domestic or foreign, or by any other person, domestic or foreign, in connection with the Exchange Offer that, in our reasonable judgment, either (i) is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or otherwise), income, assets, liabilities or prospects, (ii) would, or is reasonably likely to, prohibit or prevent, or significantly restrict or delay, consummation of the Exchange Offer or (iii) would require a modification to the terms of the Exchange Offer that would materially impair the contemplated benefits of the Exchange Offer to us;

(2) no order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality that, in our reasonable judgment, either (i) would, or is reasonably likely to, prohibit or prevent, or significantly restrict or delay, consummation of the Exchange Offer or (ii) is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or otherwise), income, assets, liabilities or prospects;

(3) neither the trustee under the indenture governing the Existing Notes nor the Trustee shall have objected in any respect to or taken action that could, in our reasonable judgment, adversely affect the consummation of the Exchange Offer in any significant manner or shall not have taken any action that challenges the validity or effectiveness of the procedures used by us in the making of any offer or the acceptance or exchange of some or all of the Existing Notes pursuant to the Exchange Offer;

(4) there shall not exist, in our reasonable judgment, any actual or threatened legal impediment that would prohibit or prevent, or significantly restrict or delay, our acceptance for exchange of, or exchange of, all of the Existing Notes;

(5) there shall not have occurred (i) any general suspension of, or limitation on prices for, trading in securities in the U.S. or Mexican securities or financial markets, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, Mexico or other major financial markets, (iii) a commencement of a war, armed hostilities, terrorist acts or other national or international calamity directly or indirectly involving the United States or Mexico or (iv) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof; and

(6) we shall have obtained all governmental approvals and third-party consents that we, in our reasonable judgment, consider necessary for the completion of the Exchange Offer as contemplated by this Exchange Offer Memorandum and all such approvals or consents shall remain in effect.

Notwithstanding any other provision of the Exchange Offer Memorandum, with respect to the Exchange Offer, we will not be obligated to (i) accept for exchange any validly tendered Existing Notes or (ii) issue any New Notes in exchange for validly tendered Existing Notes, pay any cash amounts or complete such Exchange Offer, unless the Minimum Tender Condition and the Financing Condition are satisfied at or prior to the Settlement Date.

The foregoing conditions are for the sole benefit of the Company and, subject to the terms of the Transaction Support Agreement, may be asserted by the Company regardless of the circumstances (including any action or inaction by the Company) giving rise to such condition or may be waived in whole or in part at any time and from time to time.

Procedures for Holders Exchanging Existing Notes

In order to participate in the Exchange Offer, you must validly tender the Existing Notes to the Information and Exchange Agent as further described below. It is your responsibility to properly tender the Existing Notes. We have the right to waive any defects. However, we are not required to waive defects and are not required to notify you of defects in your tender or delivery. We have the right, which may be waived by us, to reject the defective tender of Existing Notes as invalid and ineffective.

If you have any questions or need help in tendering the Existing Notes, please contact the Information and Exchange Agent whose address and telephone number is listed on the back cover of this Exchange Offer Memorandum.

Tender of Existing Notes Held in Physical Form

We do not believe that any Existing Notes exist in physical form. If you believe that you hold Existing Notes in physical form, please contact the Exchange Agent regarding procedures for participating in the Exchange Offer.

Tendering With Respect to Existing Notes Held through a Custodian

Any Holder who wishes to tender Existing Notes should contact its broker, dealer, commercial bank, trust company or other custodial entity promptly and instruct such custodial entity to tender the Existing Notes on such Holder's behalf.

Book-Entry Transfer

The Information and Exchange Agent intends to establish an account with respect to the Existing Notes at DTC for purposes of the Exchange Offer. In that event, any financial institution that is a participant in the DTC system and holds the Existing Notes may make book-entry delivery of Existing Notes by causing DTC to transfer the Existing Notes into the Information and Exchange Agent's account at DTC in accordance with DTC's procedure for transfer.

Procedure for Exchanging Existing Notes through ATOP

DTC participants must electronically transmit their acceptance of the Exchange Offer through DTC's ATOP, for which the transaction is expected to be eligible. In accordance with ATOP procedures, DTC will then verify the acceptance of the Exchange Offer and send an Agent's Message (as defined herein) to the Information and Exchange Agent for its acceptance. Any such tender must be received by the Information and Exchange Agent at or prior to the Expiration Date. If you desire to tender your Existing Notes on the Expiration Date, you must allow sufficient time for completion of the ATOP procedures during the normal business hours of DTC on such date.

An "Agent's Message" is a message transmitted by DTC, received by the Information and Exchange Agent and forming part of the book-entry confirmation, which states that DTC has received an express acknowledgement from you that you have received this Exchange Offer Memorandum and agree to be bound by the terms thereof, and that we may enforce such agreement against you.

General

The exchange of Existing Notes pursuant to the Exchange Offer by the procedures set forth above will constitute an agreement among the tendering Holder and the Company in accordance with the terms and subject to the conditions to the Exchange Offer.

Holders May Not Exchange Their Existing Notes by Guaranteed Delivery

There is no provision for Holders to exchange their Existing Notes via guaranteed delivery. Delivery of the Existing Notes through ATOP must be made by the Expiration Date. Existing Notes tendered in the Exchange Offer after the Expiration Date will not constitute a valid tender of Existing Notes and will be rejected as an invalid and ineffective tender.

The Dealer Manager

BCP Securities, Inc. has been engaged to act as Dealer Manager in connection with the Exchange Offer. In such capacity, the Dealer Manager may contact Eligible Holders regarding the Exchange Offer and may request brokers, dealers, commercial banks, trust companies and other nominees to forward this Exchange Offer Memorandum and related materials to beneficial owners that are Eligible Holders of Existing Notes. Grupo Kaltex will pay the Dealer Manager reasonable compensation for soliciting tenders in the Exchange Offer. Grupo Kaltex will also reimburse the Dealer Manager for certain reasonable expenses.

The obligations of the Dealer Manager to perform such functions are subject to certain conditions. Grupo Kaltex has agreed to indemnify the Dealer Manager against certain liabilities, including liabilities under the U.S. federal securities laws. From time to time, the Dealer Manager and one or more of its respective affiliates have provided, and in the future the Dealer Manager or one or more of its respective affiliates may provide, investment banking, commercial banking and advisory and other services for Grupo Kaltex and its affiliates for customary compensation. In the ordinary course of their business, the Dealer Manager or its affiliates may at any time hold long or short positions, and may trade for their own accounts or the accounts of customers, in securities of Grupo Kaltex and its affiliates, including, to the extent that the Dealer Manager or its affiliates own Existing Notes during the Exchange Offer, they may tender such Existing Notes pursuant to the terms of the Exchange Offer. If the Dealer Manager or its affiliates have a lending relationship with Grupo Kaltex, then the Dealer Manager or its affiliates may routinely hedge their credit exposure to Grupo Kaltex, consistent with their customary risk management policies. In addition, it is likely that the Dealer Manager and/or its affiliates will hedge its credit exposure. Typically, the Dealer Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Grupo Kaltex's securities, including potentially the New Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the New Notes offered hereby.

Any Eligible Holder that has questions concerning the terms of the Exchange Offer may contact the Dealer Manager at its address and telephone numbers set forth on the back cover of this Exchange Offer Memorandum. The Dealer Manager does not assume any responsibility for the accuracy or completeness of the information concerning the Company or its affiliates or the Existing Notes or New Notes contained or referred to in this Exchange Offer

Memorandum (except to the extent they have provided such information to the Company) or for any failure by the Company to disclose events that may have occurred and may affect the significance or accuracy of such information.

Beneficial Owners

Beneficial owners of Existing Notes who do not hold their Existing Notes but wish to tender their Existing Notes must do one of:

- contact the Holder of the Existing Notes and instruct such Holder to tender the Existing Notes on the beneficial owner's behalf; or

- effect a record transfer of the Existing Notes at or prior to the Expiration Date from the Holder of Existing Notes to the beneficial owner and comply with the requirements applicable to Holders generally for tendering Existing Notes. In such instance, the Holder should effect the record transfer in a timely manner so as to allow sufficient time for completion of the transfer.

Neither we nor the Information and Exchange Agent have any obligation to effect the transfer of any Existing Notes from the name of the Holder if we do not accept for exchange any of the principal amounts of those Existing Notes.

Information and Exchange Agent

D.F. King & Co., Inc. has been appointed as Information and Exchange Agent for the Exchange Offer. Questions and requests for assistance, and all correspondence in connection with the Exchange Offer, or requests for copies of any required documents, may be directed to the Information and Exchange Agent at one of its addresses and telephone numbers set forth on the back cover of this Exchange Offer Memorandum. The Information and Exchange Agent will also assist with the dissemination of this Exchange Offer Memorandum and related materials to Holders, respond to inquiries of and provide information to Holders in connection with the Exchange Offer, and provide other similar services as the Company may request from time to time.

Subject to certain terms and conditions set forth in the agreement between the Company and the Information and Exchange Agent, the Company has agreed to pay the Information and Exchange Agent customary fees for its services in connection with the Exchange Offer. The Company has also agreed to reimburse the Information and Exchange Agent for its reasonable out-of-pocket expenses and to indemnify it against certain liabilities.

As stated above, the Company will pay the Information and Exchange Agent reasonable and customary fees for its services (and will reimburse it for its reasonable out-of-pocket expenses in connection therewith), and will pay brokerage houses and other custodians, nominees and fiduciaries their reasonable out-of-pocket expenses incurred in connection with forwarding copies of this Exchange Offer Memorandum and related documents to the Holders. In addition, the Company will indemnify the Information and Exchange Agent against certain liabilities in connection with its services, including liabilities under the U.S. federal securities laws.

Determination of Validity

All questions as to the validity, form, eligibility (including time of receipt) and acceptance for exchange, as the case may be, of any tendered Existing Notes pursuant to any of the procedures described above, and the form and validity (including time of receipt of notices of withdrawal) of all documents will be determined by us in our sole discretion, which determination will be final and binding. We reserve the absolute right to reject any or all tenders of any Existing Notes determined by us not to be in proper form, or if the acceptance, exchange of such Existing Notes may, in the opinion of our counsel, be unlawful. We also reserve the right to waive any conditions to the Exchange Offer that we are legally permitted to waive.

Your tender will not be deemed to have been validly made until all defects or irregularities in your tender have been cured or waived. All questions as to the form and validity (including time of receipt) of any delivery or withdrawal of a tender will be determined by us in our sole discretion, which determination shall be final and binding. Neither we, the Information and Exchange Agent nor any other person or entity is under any duty to give notification

of any defects or irregularities in any tender or withdrawal of any Existing Notes, or will incur any liability for failure to give any such notification.

Eligibility to Participate in the Exchange Offer

You may not copy or distribute this Exchange Offer Memorandum in whole or in part to anyone without our prior consent. This Exchange Offer Memorandum is a confidential document that is being provided for informational use solely in connection with the consideration of the Exchange Offer and an investment in the New Notes (i) to holders of Existing Notes that are QIBs in a private transaction in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof and (ii) outside the United States, to holders of Exchange Notes that are Non-U.S. Persons and who are not acquiring New Notes for the account or benefit of a U.S. person, in offshore transactions in compliance with Regulation S under the Securities Act, and who are non-U.S. qualified offerees.

Only holders of Existing Notes who have returned a duly completed Eligibility Letter certifying that they are within one of the categories described in the immediately preceding sentence, are authorized to receive and review this Exchange Offer Memorandum and participate in the Exchange Offer. See "Transfer Restrictions of New Notes." If you are not an Eligible Holder, you should dispose of this Exchange Offer Memorandum. Each Eligible Holder that tenders its outstanding Existing Notes for Exchange in this Exchange Offer will be agreeing with and making the representations, warranties and agreements as set forth under "Holders' Representations, Warranties and Undertakings" and "Transfer Restrictions of New Notes."

Holders' Representations, Warranties and Undertakings

Subject to, and effective upon, the acceptance of, and the issuance of the New Notes in exchange for, the principal amount of Existing Notes tendered in accordance with the terms and subject to the conditions of the Exchange Offer, a tendering Eligible Holder, by submitting or sending an Agent's Message to the Information and Exchange Agent in connection with the tender of Existing Notes, will have:

- irrevocably agreed to sell, assign and transfer to or upon our order or our nominees' order, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen as a result of the tendering Eligible Holder's status as a holder of, all Existing Notes tendered, such that thereafter it shall have no contractual or other rights or claims in law or equity against us or any fiduciary, trustee, fiscal agent or other person connected with the Existing Notes arising under, from or in connection with such Existing Notes;

- waived any and all rights with respect to the Existing Notes tendered (including, without limitation, any existing or past defaults and their consequences in respect of such Existing Notes);

- released and discharged us and our affiliates from any and all claims the tendering Eligible Holder may have, now or in the future, arising out of or related to the Existing Notes tendered, including, without limitation, any claims that the tendering Eligible Holder is entitled to receive additional principal or interest payments with respect to the Existing Notes tendered (other than as expressly provided in this Exchange Offer Memorandum) or to participate in any repurchase, redemption or defeasance of the Existing Notes tendered, as applicable; and

- represented, warranted and agreed that:

  (1) it has received a copy of this Exchange Offer Memorandum and acknowledges that it has had access to such financial and other information and has been afforded an opportunity to ask such questions of our representative and receive answers thereto as it has deemed necessary in connection with its decision to exchange its Existing Notes for New Notes;

  (2) it has not relied on the Dealer Manager or its agents or any person affiliated with the Dealer Manager or its agents in connection with its investigation of the accuracy of such information or its investment decision;

(3) no person has been authorized to give any information or to make any representation concerning us, the Exchange Offer or the New Notes other those as set forth in this Exchange Offer Memorandum, and if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Dealer Manager or its agents;

(4) it is the beneficial owner of, or a duly authorized representative of one or more beneficial owners of, the Existing Notes tendered for exchange thereby;

(5) the Existing Notes being tendered for exchange in the Exchange Offer were owned as of the date of tender, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to those Existing Notes, free and clear of all liens, charges, claims, encumbrances, interests and restrictions of any kind, when we accept the same;

(6) it will not sell, pledge, hypothecate or otherwise encumber or transfer any Existing Notes tendered for exchange in the Exchange Offer, and any purported sale, pledge, hypothecation or other encumbrance or transfer will be void and of no effect;

(7) it is, or in the event that it is acting on behalf of a beneficial owner of the Existing Notes tendered for exchange in the Exchange Offer, it has received a written certification from such beneficial owner (dated as of a specific date on or since the close of such beneficial owner's most recent fiscal year) to the effect that such beneficial owner is, (i) a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) and is acquiring the New Notes for its own account or for a discretionary account or accounts on behalf of one or more other "qualified institutional buyers" (on whose behalf it has been instructed and has the authority to make the statements contained therein), or (ii) a Non-U.S. Person or acquiring for the account of a U.S. person (other than as a distributor) and is acquiring New Notes in an offshore transaction in accordance with Rule 903 of Regulation S, and is a non-U.S. qualified offerees (as defined under "Transfer Restrictions of New Notes");

(8) it is not located or resident in the United Kingdom or, if it is located or resident in the United Kingdom:

a) it is a person (i) who has professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), (ii) falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order or (iii) to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any New Notes may otherwise lawfully be communicated or caused to be communicated;

b) it is not a retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive (EU), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; and

c) it acknowledges that no key information document required by the UK PRIIPs Regulation for offering the New Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation;

(9) it is not an investor resident in a Member State of the EEA, or, if it is resident in a Member State of the EEA:

a) it is not a retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II); or (ii) a customer within the meaning of the Insurance Distribution Directive, where the customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, and

b) it acknowledges that no key information document required by the PRIIPs Regulation for offering the New Notes or otherwise making them available to retail investors in the EEA, has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation;

(10) it and the person receiving New Notes have observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, complied with all requisite formalities and paid any issue, transfer or other taxes or requisite payments due from any of them in each respect in connection with any offer or acceptance in any jurisdiction, and that it and such person or persons have not taken or omitted to take any action in breach of the terms of the Exchange Offer or which will or may result in the Company or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with the Exchange Offer or the tender of Existing Notes in connection therewith;

(11) it is otherwise a person to whom it is lawful to make available this Exchange Offer Memorandum or to make the Exchange Offer in accordance with applicable laws (including the transfer restrictions set out in this Exchange Offer Memorandum);

(12) in evaluating the Exchange Offer and in making its decision whether to participate in the Exchange Offer and tendering for exchange its Existing Notes, it has made its own independent appraisal of the matters referred to in this Exchange Offer Memorandum and in any related communications, and it is not relying on any statement, representation or warranty, express or implied, made to it by us, the Information and Exchange Agent, the Trustee or the Dealer Manager, other than those contained in this Exchange Offer Memorandum, as amended or supplemented through the Expiration Date;

(13) the tendering of Existing Notes for Exchange in the Exchange Offer shall constitute an undertaking to execute any further documents and give any further assurances that may be required in connection with any of the foregoing, in each case on and subject to the terms and conditions described or referred to in this Exchange Offer Memorandum;

(14) it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of acquiring the New Notes and that it and any accounts for which it is acting are each able to bear the economic risks of its or their investment;

(15) it is not acquiring the New Notes with a view toward any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any state of the United States or any other applicable jurisdiction; provided that the disposition of its property and the property of any accounts for which it is acting as fiduciary will remain at all times within its control;

(16) it acknowledges that the Company, the Dealer Manager and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and warranties made by its submission of a tender in accordance with the procedures set forth herein, are, at any time prior to the consummation of the Exchange Offer, no longer accurate, it shall promptly notify the Company and the Dealer Manager. If it is tendering the Existing Notes as a fiduciary or agent for one or more investor accounts, it

represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of such account; and

(17) neither it nor the person receiving New Notes is acting on behalf of any person who could not truthfully make the foregoing representations, warranties and undertakings.

Each Eligible Holder exchanging Existing Notes for New Notes will also be required to represent, warrant and agree to the terms described under "Transfers of New Notes."

Issuance of New Notes

Assuming the conditions to the Exchange Offer are satisfied or waived, we will issue the New Notes in book-entry form on the Settlement Date in exchange for Existing Notes that are validly tendered and accepted in the Exchange Offer.

We reserve the right, in our sole discretion, but subject to applicable law and the terms of the Transaction Support Agreement, to (a) delay acceptance of Existing Notes tendered under the Exchange Offer or the issuance of New Notes in exchange for validly tendered Existing Notes (subject to Rule 14e-l under the Exchange Act, which requires that we pay the consideration offered or return Existing Notes deposited by or on behalf of the Eligible Holders promptly after the termination or withdrawal of the Exchange Offer) or (b) terminate the Exchange Offer at any time on or prior to the Expiration Date if the conditions thereto are not satisfied or waived by us.

For purposes of the Exchange Offer, we will have accepted for exchange validly tendered Existing Notes (or defectively tendered Existing Notes with respect to which we have waived such defect) if, as and when we give oral (promptly confirmed in writing) or written notice thereof to the Information and Exchange Agent. We will pay any applicable cash amounts by depositing such payment with the Information and Exchange Agent or, at the direction of the Information and Exchange Agent, with DTC. Subject to the terms and conditions of the Exchange Offer, delivery of the New Notes and payment of any cash amounts will be made by the Information and Exchange Agent on the Settlement Date upon receipt of such notice. The Information and Exchange Agent will act as agent for participating Eligible Holders of the Existing Notes for the purpose of receiving Existing Notes from, and transmitting New Notes and any cash payments to, such Eligible Holders. With respect to tendered Existing Notes that are to be returned to Eligible Holders, such Existing Notes will be returned by credit to the account at DTC.

If, for any reason, acceptance for exchange of tendered Existing Notes, or issuance of New Notes or delivery of any cash amounts in exchange for validly tendered Existing Notes, pursuant to the Exchange Offer is delayed, or we are unable to accept tendered Existing Notes for exchange or to issue New Notes or deliver any cash amounts in exchange for validly tendered Existing Notes pursuant to the Exchange Offer, then the Information and Exchange Agent may, nevertheless, on behalf of us, retain the tendered Existing Notes, without prejudice to our rights described under "Expiration Date; Expiration Date; Extensions, Terminations and Amendments," "Conditions to the Exchange Offer" and "Withdrawal of Tenders," but subject to Rule 14e-l under the Exchange Act, which requires that we pay the consideration offered or return the Exchange Notes tendered promptly after the termination or withdrawal of the Exchange Offer.

If any tendered Existing Notes are not accepted for exchange for any reason pursuant to the terms and conditions of the Exchange Offer, such Existing Notes will be credited to an account maintained at DTC from which such Existing Notes were delivered promptly following the Expiration Date or the termination of the Exchange Offer.

Eligible Holders of Existing Notes tendered for exchange and accepted by us pursuant to the Exchange Offer will be entitled to Accrued Interest, which interest shall be payable on the Settlement Date. Under no circumstances will any additional interest be payable as a result of any delay by the Information and Exchange Agent or DTC in the transmission of funds to Eligible Holders of accepted Existing Notes or otherwise.

Tendering Eligible Holders of Existing Notes accepted in the Exchange Offer will not be obligated to pay brokerage commissions or fees to us, the Dealer Manager, the Information and Exchange Agent or, except as set forth below, to pay transfer taxes with respect to the exchange of their Existing Notes.

Alternative, conditional or contingent tenders will not be considered valid. We reserve the right to reject any or all tenders of Existing Notes that are not in proper form or the acceptance of which would, in our opinion, be unlawful. We also reserve the right, subject to applicable law, to waive any defects, irregularities or conditions of tender as to particular Existing Notes, including any delay in the submission thereof or any instruction with respect thereto. A waiver of any defect or irregularity with respect to the tender of certain Existing Notes shall not constitute a waiver of the same or any other defect or irregularity with respect to the tender of any other Existing Notes. Our interpretations of the terms and conditions of the Existing Offer will be final and binding on all parties. Any defect or irregularity in connection with tenders of Existing Notes must be cured within such time as we determine, unless waived by us. Tenders of Existing Notes shall not be deemed to have been made until all defects and irregularities have been waived by us or cured. None of us, the Trustee, the Dealer Manager, the Information and Exchange Agent or any other person will be under any duty to give notice of any defects or irregularities in tenders of Existing Notes or will incur any liability to Eligible Holders for failure to give any such notice.

Withdrawal of Tenders

An Eligible Holder may withdraw the tender of such Eligible Holder's Existing Notes at any time prior to the Withdrawal Deadline by submitting a notice of withdrawal to the Information and Exchange Agent using ATOP procedures or upon compliance with the other procedures described below. Any Existing Notes tendered prior to the Withdrawal Deadline that are not validly withdrawn prior to the Withdrawal Deadline may not be withdrawn on or after the Withdrawal Deadline, and Existing Notes validly tendered on or after the Withdrawal Deadline may not be withdrawn, in each case, except as required by applicable law.

Existing Notes tendered in the Exchange Offer may be validly withdrawn at any time at or prior to the Withdrawal Deadline. Existing Notes tendered after the applicable Withdrawal Deadline may not be withdrawn, except in limited circumstances. After the Withdrawal Deadline, for example, tendered Existing Notes may not be validly withdrawn unless we amend or otherwise change the Exchange Offer in a manner material to tendering Eligible Holders or are otherwise required by law to permit withdrawal (as determined by us in our reasonable discretion). The minimum period during which the Exchange Offer will remain open following material changes in the terms of the Exchange Offer or in the information concerning the Exchange Offer will depend upon the facts and circumstances of such changes, including the relative materiality of the changes. With respect to a change in consideration, the Exchange Offer will remain open for a minimum five business day period. If the terms of the Exchange Offer are amended in a manner determined by us to constitute a material change, we will promptly disclose any such amendment in a manner reasonably calculated to inform Eligible Holders of such amendment, and we will extend the Exchange Offer for a minimum three business day period following the date that notice of such change is first published or sent to Eligible Holders to allow for adequate dissemination of such change, if the Exchange Offer would otherwise expire during such time period. In the event that the Exchange Offer is extended, we will allow previously tendered Existing Notes to be withdrawn until the tenth business day after the date of commencement of the Exchange Offer. If the Exchange Offer is terminated, Existing Notes tendered pursuant to the Exchange Offer will be returned promptly to the tendering Eligible Holders.

For a withdrawal of a tender of Existing Notes to be effective, a written or facsimile transmission notice of withdrawal must be timely received by the Information and Exchange Agent at its address set forth on the back cover page of this Exchange Offer Memorandum at or prior to the Withdrawal Deadline, by mail, fax or hand delivery or by a properly transmitted "Request Message" through ATOP. Any such notice of withdrawal must:

(1) specify the name of the Eligible Holder who tendered the Existing Notes to be withdrawn and, if different, the name of the registered holder of such Existing Notes (or, in the case of Existing Notes tendered by book-entry transfer, the name of the DTC participant whose name appears on the security position as the owner of such Existing Notes); and

(2) contain the description of the Existing Notes to be withdrawn (including the principal amount of the Existing Notes to be withdrawn).

If the Existing Notes to be withdrawn are held through the clearing systems, you must contact your custodian to arrange for the withdrawal of previously tendered Existing Notes. No such withdrawal will be effective unless the Request Message described above is received through DTC's ATOP system. The clearing systems may impose additional deadlines in order to process these withdrawal instructions to ATOP.

Withdrawal of tenders of Existing Notes may not be rescinded, and any Existing Notes properly withdrawn will thereafter not be validly tendered for purposes of the Exchange Offer. Withdrawal of Existing Notes may only be accomplished in accordance with the foregoing procedures. Existing Notes validly withdrawn may thereafter be retendered at any time on or before the Expiration Date by following the procedures described under "—Procedures for Holders Exchanging Existing Notes."

We will determine all questions as to the form and validity (including time of receipt) of any notice of withdrawal of a tender, in our sole discretion, which determination shall be final and binding. None of us, the Trustee, the Dealer Manager or the Information and Exchange Agent or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal of a tender or incur any liability for failure to give any such notification.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the transfer and exchange of Existing Notes in the Exchange Offer. If transfer taxes are imposed for any reason other than the transfer and tender to us, the amount of those transfer taxes, whether imposed on the registered holders or any other persons, will be payable by the tendering Eligible Holder. Transfer taxes that will not be paid by us include taxes, if any, imposed:

- if New Notes in book-entry form are to be registered in the name of any person other than the person on whose behalf an Agent's Message was sent;
- if tendered Existing Notes are to be registered in the name of any person other than the person on whose behalf an Agent's Message was sent; or
- if any cash payment in respect of the Exchange Offer is being made to any person other than the person on whose behalf an Agent's Message was sent.

If satisfactory evidence of payment of, or exemption from, transfer taxes that are not required to be borne by us is not submitted with the Agent's Message, the amount of those transfer taxes will be billed directly to the tendering Eligible Holder and/or withheld from any payments due with respect to the Existing Notes tendered by such Eligible Holder.

Miscellaneous

Other than with respect to the Information and Exchange Agent and the Dealer Manager, none of the Company or any of its affiliates has engaged, or made any arrangements for, and authorized any person to provide any information or to make any representations in connection with the Exchange Offer, other than those expressly set forth in this Exchange Offer Memorandum, and, if so provided or made, such other information or representations must not be relied upon as having been authorized by the Company, or any of its affiliates. The delivery of this Exchange Offer Memorandum shall not, under any circumstances, create any implication that the information set forth herein is correct as of any time subsequent to the date hereof.

All materials should be sent to the Information and Exchange Agent and not to us.

Offer and Distribution Restrictions

We have not filed this Exchange Offer Memorandum with, and it has not been reviewed by, any federal or state securities commission or regulatory authority of any country. No authority has passed upon the accuracy or adequacy of this Exchange Offer Memorandum, and it is unlawful and may be a criminal offense to make any representation to the contrary.

This Exchange Offer Memorandum constitutes neither an offer to purchase nor a solicitation of consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such an offer or solicitation under applicable securities or "blue sky" laws. The delivery of this Exchange Offer Memorandum shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or thereof, or that there has been no change in the information set forth herein or therein or in our or any of our subsidiaries or affiliates since the date hereof or thereof.

Only Eligible Holders that have previously completed and returned to the Information and Exchange Agent an Eligibility Letter are authorized to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. No action has been or will be taken in any jurisdiction by us, the Dealer Manager or the Information and Exchange Agent that would constitute a public offering of the New Notes.

United States

The delivery of this Exchange Offer Memorandum will not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in our affairs since the date hereof.

Mexico

The New Notes have not and will not be registered with the National Securities Registry maintained by the CNBV and, therefore, may not be offered or sold publicly in Mexico or otherwise be subject to intermediation activities in Mexico, except pursuant to the registration exemptions provided in article 8 of the Mexican Securities Market Law (Ley del Mercado de Valores). After the issuance of the New Notes, we will notify the CNBV of the terms and conditions of the offer of the New Notes outside of Mexico. Such notice will be submitted for informational purposes to the CNBV to comply with article 7, second paragraph, of the Mexican Securities Market Law and regulations thereunder. The delivery to, and receipt by, the CNBV of such notice does not constitute or imply any certification as to the investment quality of the New Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this Exchange Offer Memorandum. This Exchange Offer Memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV, and may not be publicly distributed in Mexico. In making an investment decision, all investors, including any Mexican investor, who may acquire New Notes must rely on their own examination of us.

European Economic Area

The New Notes are not intended to be offered, or otherwise made available to and should not be offered or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering the New Notes or otherwise making them available to retail investors in the EEA, has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

The New Notes are not intended to be offered otherwise made available to, and should not be offered or otherwise made available to, any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive (EU), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the

"UK PRIIPs Regulation") for offering the New Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

In the United Kingdom, this Exchange Offer Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any New Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Exchange Offer Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Exchange Offer Memorandum relates is available only to and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Exchange Offer Memorandum or any of its contents.

DESCRIPTION OF THE NEW NOTES

The Company will issue the Notes under the Indenture, to be dated as of the Issue Date, among the Company, the Note Guarantors, The Bank of New York Mellon, as Trustee, and Banco Monex, S.A. Institución de Banca Múltiple, Monex Grupo Financiero, as Collateral Agent. The Notes and the Company's obligations under the Indenture will be guaranteed by the Note Guarantors.

The Security Documents referred to below under the caption "—Collateral" will define the terms of the agreements that will provide for the Collateral securing the Notes.

We summarize below certain provisions of the Indenture, the Notes and the Security Documents, but do not restate such documents in their entirety. We urge you to read the Indenture, the Notes and the Security Documents because such documents, and not their respective descriptions, define your rights. You can obtain a copy of the Indenture, the Notes and the Security Documents in the manner described under "Available Information."

You can find the definition of capitalized terms used in this section under "Certain Definitions." When we refer to "we," "us," "our" or the "Company" in this section, we mean Grupo Kaltex, S.A. de C.V. and not its Subsidiaries.

When we refer to "Notes" in this section, we mean the New Notes issued on the Issue Date.

General

The Notes and the related Note Guarantees of the Note Guarantors will:

- be unsubordinated obligations of the Company and the Note Guarantors;
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company and the Note Guarantors, if any;
- be unconditionally guaranteed on a general unsubordinated senior basis by certain of the Company's existing and future Restricted Subsidiaries as described under "—Note Guarantees." As of June 30, 2022, and for the six months ended June 30, 2022, the Note Guarantors accounted for 54% of the consolidated assets, 103% of the consolidated EBITDA and 82% of the consolidated sales of the Company and its consolidated subsidiaries, and as of December 31, 2021, and for the year ended December 31, 2021, the Note Guarantors accounted for 51% of the consolidated assets, 111% of the consolidated EBITDA and 75% of the consolidated sales of the Company and its consolidated subsidiaries;
- be structurally subordinated to all existing and future Indebtedness, trade payables and other obligations of each Subsidiary of the Company that is not a Note Guarantor;
- rank junior to all obligations preferred by statute (such as tax and labor obligations); and
- be secured by first priority Liens on the Collateral and rank senior in right of payment to all existing and future unsecured Indebtedness of the Company and the Note Guarantors solely to the extent of the value of the Collateral.

The payment obligations of the Company under the Notes will rank equally in right of payment with the payment obligations of the Company as joint obligor (*obligado solidario*) under the Concurrent Loan Facility. The payment obligations under the Note Guarantee of Manufacturas Kaltex, S.A. de C.V. will rank equally in right of payment with the payment obligations of Manufacturas Kaltex, S.A. de C.V. as borrower under the Concurrent Loan Facility.

As of June 30, 2022, on a pro forma basis after giving effect to the Exchange Offer and the related transactions as described under "Use of Proceeds":

- the Company and its Subsidiaries would have had consolidated total indebtedness of Ps. thousand (U.S.$ thousand) (including the Notes);

- the Company and the Note Guarantors would have had consolidated total indebtedness of Ps. thousand (U.S.$ thousand); and

- the Company's Subsidiaries that are not Note Guarantors would have had consolidated total indebtedness of Ps. thousand (U.S.$ thousand).

No Further Issuances

The aggregate principal amount of the Notes will be limited to U.S.$118,000,000 and the Company shall not create and/or issue additional Notes after the Issue Date other than PIK Notes issued pursuant to the terms of the Indenture and the Notes.

For the avoidance of doubt, the Company may issue debt securities with terms different from those applicable to the Notes that are not fungible with the Notes and do not share in the Collateral, subject to the limitations set forth under "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness."

Principal, Maturity and Interest

The Company will initially issue U.S.$118,000,000 in aggregate principal amount of Notes on the Issue Date in denominations of U.S.$1,000.00 and integral multiples of U.S.$1.00. The Notes will mature on September 30, 2025.

The Notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the Notes will accrue at the rate of 14.500% per annum and will be payable semi-annually in arrears on each April 11 and October 11, commencing on April 11, 2023. Payments will be made to the persons who are registered Holders at the close of business on April 9 and October 9, respectively, immediately preceding the applicable interest payment date.

Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of Notes with unpaid and accrued interest to the date of redemption will not affect the right of Holders of record on a record date to receive interest due on an interest payment date.

Interest on the Notes shall be payable entirely in cash ("Cash Interest") on each interest payment date, except that the Company may, at its sole discretion, in respect of any interest payment date (other than at maturity), elect to pay interest of up to 1.500% per annum for such period as PIK Interest (i.e. interest on the Notes of at least 13.000% per annum must be paid for such period as Cash Interest) and the remaining interest amount for such period shall be paid as Cash Interest.

In the event that the Company shall elect, in its sole discretion, to pay PIK Interest with respect to any interest payment date, the Company shall deliver an irrevocable written notice (a "PIK Notice") to the Trustee no later than the 15th calendar day immediately prior to the relevant interest payment date, which PIK Notice shall state, with respect to such interest payment date (a) the percentage per annum interest rate that will be paid as PIK Interest (up to a maximum of 1.500% per annum), (b) the percentage per annum interest rate that will be paid as Cash Interest (which is required to be the difference between 14.500% per annum and the PIK Interest percentage specified in (a)), and (c) the U.S. dollar amount of Cash Interest and PIK Interest payable per U.S.$1,000.00 aggregate principal amount of Notes to be paid in accordance with the terms of the Notes and the Indenture. The Trustee shall promptly upon receipt of the PIK Notice, and in no event later than the 10th calendar day immediately prior to the relevant interest payment date, on behalf of the Company, deliver a corresponding notice to the Holders. For the avoidance of doubt, interest on the Notes in respect of any interest payment date for which a PIK Notice is not delivered in accordance with this paragraph must be paid entirely as Cash Interest.

Any PIK Interest on the Notes (including in the event of payment of Additional Interest in respect of PIK Interest) will be payable to Holders and (a) with respect to the Notes represented by one or more Global Notes on the

relevant record date, by increasing the principal amount of the outstanding Global Notes by an amount equal to the amount of PIK Interest payable on the applicable interest payment date (rounded up to the nearest whole U.S. dollar), and (b) with respect to Notes represented by certificated Notes, by issuing PIK Notes in the form of additional certificated Notes to the Holders of such certificated Notes in an aggregate principal amount equal to the amount of PIK Interest payable on the applicable interest payment date (rounded up to the nearest whole U.S. dollar), and the Trustee shall authenticate and deliver such PIK Notes in the form of additional certificated Notes for original issuance to the Holders thereof on the relevant record date. Following an increase in the principal amount of the outstanding Global Notes as a result of a PIK Payment, the Global Notes will bear interest on such increased principal amount from and after the date of such PIK Payment. Any PIK Notes issued in the form of additional certificated Notes will be distributed to Holders, dated as of the applicable interest payment date and will bear interest on the principal amount of such PIK Notes from and after the interest payment date in respect of which the PIK Payment was made.

All PIK Notes shall mature on the same date as all other Notes issued pursuant to the Indenture and shall be governed by, and subject to the same terms, provisions and conditions of, the Indenture and shall have the same rights and benefits as the other Notes issued pursuant to the Indenture. Any certificated PIK Notes will be issued with the description "PIK" on the face of such PIK Notes.

If any interest payment date or redemption date falls on a day which is not a Business Day, payment of interest, principal and premium, if any, with respect to the Notes will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest on such payment will accrue from and after such due date on account of such delay.

Initially, the Trustee will act as Paying Agent and Registrar for the Notes. The Company may change the Paying Agent and Registrar without notice to Holders. All payments to the Holders of Global Notes will be made to DTC in accordance with its applicable procedures. All other payments on the Notes will be made at the office or agency of the Paying Agent in New York City unless the Company elects to make interest payments by check mailed to the registered Holders at their registered addresses.

Additional Interest

The Company is required by Mexican law to deduct Mexican withholding taxes at a rate of 4.9%, if certain requirements set forth under Article 166, section II, subsection a) of the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) and other applicable tax provisions are satisfied, from payments of interest and amounts deemed as interest to investors who are not residents of Mexico for tax purposes, and the Company and the Note Guarantors will pay Additional Interest on such payments to the extent described below.

All payments of principal, premium, if any, and interest in respect of the Notes and each Note Guarantee will be made free and clear of, and without withholding or deduction for or on account of, any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, fees, assessments or other governmental charges of whatever nature ("Taxes") unless such withholding or deduction is required by law or by the interpretation or administration thereof. In the event of any such withholding or deduction of Taxes imposed, levied, collected, withheld or assessed by or with respect to that payment by or on behalf of Mexico, any political subdivision therein, any other jurisdiction in which the Company or any Note Guarantor is organized, incorporated, is a resident for tax purposes or has a permanent establishment therein, or any jurisdictions from or through which payments on the Notes or the Note Guarantees are made (any such jurisdiction, a "Relevant Taxing Jurisdiction"), the Company and Note Guarantors shall (subject to the exceptions described below) pay such additional interest (such additional interest, "Additional Interest") (in the form of (i) in the case of a withholding or deduction in respect of PIK Interest, additional PIK Interest, and (ii) in all other cases, cash) as may be necessary so that the net amount received (including Additional Interest) by each Holder and beneficial owner of the Notes after such withholding or deduction, including any interest, additions to tax or penalties, will equal the amount such Holder or beneficial owner would have received if such Taxes had not been withheld or deducted.

The Company's obligation to pay Additional Interest is subject to several important exceptions. The Company and any Note Guarantor will not be required to pay Additional Interest to any Holder for or on account of any of the following:

- any Taxes imposed solely because at any time there is or was a connection between the Holder and the Relevant Taxing Jurisdiction (other than the mere purchase, ownership or holding of a Note or the receipt of payment on a Note) including such Holder of the Note or any beneficial owner of the Note (i) being or having been a citizen or resident thereof for tax purposes, (ii) maintaining or having maintained an office, permanent establishment, or branch (to which income is attributable), in all cases subject to taxation therein, or (iii) being or having been present or engaged in a trade or business therein (other than the receipt of payments or the ownership or holding of a Note);

- any estate, inheritance, gift, sales, use, transfer, personal property or similar Tax with respect to the Notes;

- any Taxes imposed solely because the Holder fails to comply with any reasonable certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the applicable Relevant Taxing Jurisdiction, for tax purposes, of the Holder or any beneficial owner of the Note, if compliance is required by law, regulation, administrative practice or by an applicable income tax treaty to which the Relevant Taxing Jurisdiction is a party as a precondition to exemption from, or reduction in the rate of, the Tax and the Company has given the Holders at least 30 days' written notice that Holders will be required to provide such information and identification;

- any Tax payable otherwise than by collection, deduction or withholding from actual or deemed payments on the Notes or the Note Guarantees;

- any Taxes with respect to a Note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to Holders, whichever occurs later, except to the extent that the Holder of such Note would have been entitled to such Additional Interest on presenting such Note for payment on any date during such 30-day period;

- any payment on the Note to a Holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Interest had the beneficiary, settlor, member or beneficial owner been the Holder of the Note;

- any withholding or deduction imposed on payment by any tax authority other than a Relevant Taxing Jurisdiction;

- to the extent any Tax required to be withheld or deducted under section 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA") and any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b) of the Code, any intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing, any law, regulation or practice adopted pursuant to any such agreement, any treaty, law, regulation or other official guidance enacted by any foreign government implementing FATCA, or any agreement between the Company and the United States or any authority thereof implementing FATCA; or

- any combination of any of the above.

The limitations on the obligations of the Company or any Note Guarantor to pay Additional Interest stated in the third bullet point above will not apply if (a) the provision of information, documentation or other evidence described in such third bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of a Note, taking into account any relevant differences between U.S. and Mexican law, rule, regulation or administrative practice, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico income tax treaty), regulation and

published administrative practice, and (b) with respect to Taxes imposed by or on behalf of Mexico or any political subdivision or taxing authority thereof or therein, Article 166, Section II, Subsection (a), of the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) (or a substitute or equivalent provision) is in effect, unless (i) the provision of the information, documentation or other evidence described in the third bullet point is expressly required by the applicable Mexican laws and regulations in order to apply such Article 166, Section II, Subsection (a) (or substitute or equivalent provision), and (ii) the Company or the applicable Note Guarantor cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican laws and regulations on its own through reasonable diligence and the Company or any Note Guarantor otherwise would meet the requirements for application of the applicable Mexican laws and regulations.

In addition, the third bullet point above does not require, and shall not be construed to require, that any Person, including any non-Mexican pension fund, retirement fund or financial institution, register with the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*), the Mexican Tax Administration Service (*Servicio de Administratión Tributaria*) or the Federal Taxpayer Registry (*Registro Federal de Contribuyentes*) to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

The Company and the Note Guarantors will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies, and any penalties, additions to tax or interest due with respect thereto, which arise in any Relevant Taxing Jurisdiction from the execution, delivery, registration or the making of payments in respect of the Notes.

The Company or any Note Guarantor will provide the Trustee and the Paying Agent with documentation reasonably satisfactory to the Trustee evidencing the payment of Mexican taxes in respect of which we the Company or such Note Guarantor has paid any Additional Interest. The Company will make copies of such documentation available to the Holders of the Notes or the Paying Agent upon request.

In the event the Additional Interest actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding Taxes in excess of the appropriate rate applicable to the Holder or beneficial owner of the Notes, and as a result thereof such Holder or beneficial owner is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding Tax, such Holder or beneficial owner shall, by accepting the Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to the Company. However, by making such assignment the Holder makes no representation or warranty that the Company will be entitled to receive such refund or credit and incurs no other obligation with respect thereto, except for such assignment and transfer and for reasonably assisting the Company in obtaining such refund (in each case at the sole cost and expense of the Company). The Company will inform the Trustee in writing of the refund or credit within 30 Business Days of the date that the Company determines that it is entitled to receive such refund or credit.

Any reference in this Exchange Offer Memorandum, the Indenture, the Notes or any Note Guarantee to principal, premium, interest or any other amount payable in respect of the Notes by the Company or any Note Guarantor will be deemed also to refer to any Additional Interest that may be payable with respect to that amount under the obligations referred to in this section.

Following any merger or other transaction described and permitted under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets" below, in which the Company or the Successor Company is organized under the laws of a Permitted Jurisdiction other than Mexico, all references to Mexico, Mexican law or regulations, and Mexican political subdivisions or taxing authorities under this "Additional Interest" section will be deemed to also include such Permitted Jurisdiction and any political subdivision therein or thereof, such Permitted Jurisdiction's law or regulations, and any taxing authority of such Permitted Jurisdiction or any political subdivision therein or thereof, respectively.

Restricted Subsidiaries

On the Issue Date, all Subsidiaries of the Company (other than Coltejer S.A. and its Subsidiaries) shall be Restricted Subsidiaries. On the Issue Date, the only Unrestricted Subsidiaries shall be Coltejer S.A. and its Subsidiaries. The Company shall not be permitted to designate any other Unrestricted Subsidiaries at any time.

Note Guarantees

Each Note Guarantor will fully and unconditionally guarantee the performance of all Obligations of the Company under the Indenture and the Notes (including Additional Interest) on a senior basis. The Obligations of each Note Guarantor in respect of its Note Guarantee will be limited to the maximum amount as will result in the Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law and will be subject to any other limitations that may apply under applicable law. By virtue of this limitation, a Note Guarantor's obligation under its Note Guarantee could be significantly less than amounts payable with respect to the Notes, or a Note Guarantor may have effectively no obligation under its Note Guarantee. See "Risk Factors—Risks Relating to the New Notes and Guarantees—The guarantees of the New Notes Guarantors may not be enforceable under applicable laws."

Each Note Guarantor will be released and relieved of its obligations under its Note Guarantee in the event:

(1) there is a Legal Defeasance, Covenant Defeasance or discharge of the Notes as described under "—Legal Defeasance and Covenant Defeasance" or "—Satisfaction and Discharge;"

(2) there is a sale or other disposition (including by way of consolidation, merger or the sale of all or a majority of its Capital Stock) of such Note Guarantor or the sale or disposition of all or substantially all the assets of such Note Guarantor (other than to the Company or a Note Guarantor), in accordance with the provision described under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets" or "—Collateral—Collateral Asset Sales" and is otherwise in accordance with the Indenture; or

(3) of the satisfaction and discharge of the Indenture or payment in full in immediately available funds of the principal of, and any premium and accrued and unpaid interest on, the Notes and all other Guaranteed Obligations that are then due and payable pursuant to the terms of the Indenture, the Notes and the Notes Guarantees,

provided that the transaction is carried out pursuant to and in accordance with all other applicable provisions of the Indenture.

As of the Issue Date, the following Subsidiaries of the Company will be Note Guarantors: (i) Kaltex America, Inc., (ii) Kaltex Apparel, S.A. de C.V., (iii) Kaltex Comercial, S.A. de C.V., (iv) Kaltex Home, S.A. de C.V., (v) Kaltex Internacional, S. A. de C.V., (vi) Kaltex Textiles, S.A. de C.V., and (vii) Manufacturas Kaltex, S.A. de C.V.

In addition, the Company will cause any Person, other than Coltejer S.A. and its Subsidiaries, that (A) is or becomes a Restricted Subsidiary of the Company after the Issue Date, and (B)(1) as of the last date of the most recent Semiannual Period individually represents more than 15% of the Consolidated Assets as of such date, or (2) for the two preceding Semiannual Periods, individually represents more than 15% of the Consolidated Sales for such period (including, without limitation, a result of any Permitted Investments), to become a Note Guarantor, and execute a supplemental Indenture and deliver an Officers' Certificate and an Opinion of Counsel satisfactory to the Trustee within ten Business Days of the delivery of financial statements pursuant to "Certain Covenants—Reports to Holders" for the most recent fiscal quarter in the applicable Semiannual Period.

If (x) as of the last day of the most recent Semiannual Period, the Restricted Subsidiaries that are not Note Guarantors collectively represent more than 15% of the Consolidated Assets as of such date, or (y) for the two preceding Semiannual Periods, the Restricted Subsidiaries that are not Note Guarantors collectively represent more than 15% of the Consolidated Sales for such period, the Company shall cause to become Note Guarantors such Restricted Subsidiaries that are not Note Guarantors as are necessary such that the Restricted Subsidiaries that are not Note Guarantors collectively represent less than or equal to 15% of the Consolidated Assets as of such date and less than or equal to 15% of the Consolidated Sales for such period, and to execute a supplemental Indenture and deliver an Officers' Certificate and an Opinion of Counsel satisfactory to the Trustee within ten Business Days of the delivery of financial statements pursuant to "Certain Covenants—Reports to Holders" for the most recent fiscal quarter in the applicable Semiannual Period.

Coltejer S.A. and its Subsidiaries shall not be Restricted Subsidiaries on the Issue Date and shall be excluded from both (i) the calculation of the percentage of Consolidated Assets held or Consolidated Sales generated, as applicable, by Restricted Subsidiaries that are not Note Guarantors, and (ii) the calculation of consolidated assets or consolidated sales of the Company as a whole. The Company shall have no obligation to cause Coltejer S.A. or any of its Subsidiaries to become a Note Guarantor regardless of whether or not it becomes a Restricted Subsidiary. Not all of the Company's Restricted Subsidiaries will provide a Note Guarantee and the Unrestricted Subsidiaries will not provide a Note Guarantee. In the event of a bankruptcy, liquidation or reorganization of such Subsidiaries that are not Note Guarantors, such Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company. In addition, holders of minority equity interests in the Company's Subsidiaries may receive distributions prior to or pro rata with the Company depending on the terms of the equity interests. See "Risk Factors—Risks Relating to the New Notes—Coltejer and any of its future subsidiaries will be designated as unrestricted subsidiaries which may enter into arrangements limiting our ability to rely on their cash flow or assets to pay our indebtedness."

Notwithstanding any other provision of the Indenture, for so long as any Kaltex Fibers Subsidiary or Energy Generation Subsidiary does not conduct any business or hold any assets or liabilities other than as part of the Kaltex Fibers Business or the Energy Generational Plant, respectively, then such Kaltex Fibers Subsidiary or Energy Generation Subsidiary shall not, at any time, be required to become a Note Guarantor.

Collateral

Issue Date Collateral

The Notes shall, with effect from the Issue Date, be secured by first priority security interests pursuant to the Existing Mortgages Amendment Agreement, Existing Pledge Amendment Agreements, the New Mortgage Agreements and the Collateral Asset Sale Accounts Pledge Agreement, each of which shall be governed by Mexican law and subject to the jurisdiction of Mexican courts, over the following assets:

(1) twelve plots of land and the buildings thereon located in Tlautla, Tepeji del Río, Hidalgo, Mexico (the "*Tlautla Land and Buildings*");

(2) five plots of land and the buildings thereon located in San Juan del Rio, Queretaro, Mexico (the "*San Juan Land and Buildings*");

(3) five plots of land and the buildings thereon located in Tlaxinacalpan, Tepeji del Río, Hidalgo, Mexico (the "*Tlaxinacalpan Land and Buildings*");

(4) machinery located in Tlautla, Tepeji del Río, Hidalgo, Mexico (the "*Tlautla Machinery*");

(5) machinery located in San Juan del Rio, Queretaro, Mexico (the "*San Juan Machinery*");

(6) machinery located in Tlaxinacalpan, Tepeji del Río, Hidalgo, Mexico (the "*Tlaxinacalpan Machinery*"); and

(7) the Collateral Asset Sale Accounts.

The first priority security interests in the Collateral and all other terms related to the Collateral will be set forth in the Security Documents.

In order for first priority security interests in the Collateral to secure the obligations under the Notes and the Indenture, on the Issue Date, the parties to the Existing Mortgages Amendment Agreement, Existing Pledge Amendment Agreements, the New Mortgage Agreements and the Collateral Asset Sale Accounts Pledge Agreement will enter into such Security Documents, in each case to be executed before a Mexican notary public on the Issue Date.

At or prior to the execution of the Indenture on the Issue Date, the Company and the Note Guarantors shall have (i) obtained 'no lien certificates' in connection with the land and buildings over which Liens shall be created (or,

as applicable, shall continue to exist) pursuant to the Existing Mortgages Amendment Agreement and the New Mortgage Agreements (which certificates shall indicate that no Liens exist over such land and buildings other than Liens that secure (until the Notes are issued pursuant to the Indenture) the obligations under the 2022 Notes), and (ii) filed preventative notices (*avisos preventivos*) with the applicable Public Registry of Property corresponding to the Liens to be created by (or, as applicable, shall continue to exist pursuant to) the Existing Mortgages Amendment Agreement and the New Mortgage Agreements. The Company shall certify compliance by the Company and the Note Guarantors with the provisions set forth in the previous sentence by delivering an Officers' Certificate to the Trustee and the Collateral Agent on the Issue Date which shall attach documents evidencing such compliance. The Company and the Note Guarantors shall procure that all such aforementioned preventative notices (*avisos preventivos*) are renewed, as appropriate, and kept in full force and effect, until the definitive registration of the Existing Mortgages Amendment Agreement and the New Mortgage Agreements with the applicable Public Registry of Property in favor of the Collateral Agent is obtained.

Within two Business Days after the Issue Date, the Company and the Note Guarantors shall procure that notices of execution (*avisos de celebración*) of the Existing Mortgages Amendment Agreement and the New Mortgage Agreement are filed with the applicable Public Registry of Property. The Company shall certify compliance by the Company and the Note Guarantors with the provisions set forth in the previous sentence by promptly delivering an Officers' Certificate to the Trustee and the Collateral Agent which shall attach documents evidencing such compliance.

Within two Business Days after the Issue Date, the Company and the Note Guarantors shall procure that (i) the Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement are filed by a Mexican notary public with the Moveable Assets Registry (together, the "*Moveable Assets Collateral Filings*"), and (ii) the Liens created by (or, as applicable, shall continue to exist pursuant to) the Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement that were filed in the Moveable Assets Collateral Filings are perfected through the registration with the Moveable Assets Registry in favor of the Collateral Agent.

Within two Business Days after the date that the Moveable Assets Collateral Filings are made, the Company shall deliver to the Trustee and the Collateral Agent (i) an Officers' Certificate to the effect that the Moveable Assets Collateral Filings have been made and the Liens on the relevant Collateral that, as of the Issue Date, secure the obligations under the Notes and the Indenture pursuant to the Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement have been perfected, (ii) copies of the documents evidencing that the Moveable Assets Collateral Filings have been made and the registrations of Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement in favor of the Collateral Agent have been obtained, and (iii) an Opinion of Counsel to the Company that all Liens pursuant to the Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement validly exist and have been perfected in accordance with Mexican law and constitute first priority Liens under applicable law.

The Company and the Note Guarantors shall, as promptly as practicable, but in any event no later than ten Business Days after the Issue Date, procure that the Existing Mortgages Amendment Agreement and the New Mortgage Agreements are filed with each applicable Public Registry of Property (together, the "*Real Estate Collateral Filings*"). Within two Business Days after the date that the Real Estate Collateral Filings are made, the Company shall deliver to the Trustee and the Collateral Agent (i) an Officers' Certificate to the effect that the Real Estate Collateral Filings have been made, and (ii) copies of the documents evidencing that the Real Estate Collateral Filings have been made, including letters issued and signed by the relevant Mexican notary public certifying that the Real Estate Collateral Filings were properly and timely made.

The Company and the Note Guarantors shall, as promptly as practicable, but in any event no later than 60 Business Days after the Issue Date, (i) procure that the Liens created by (or, as applicable, shall continue to exist pursuant to) the Existing Mortgages Amendment Agreement and the New Mortgage Agreements that were filed in the Real Estate Collateral Filings are perfected through the final registration with the applicable Public Registry of Property in favor of the Collateral Agent, and (ii) deliver to the Trustee and the Collateral Agent (x) an Officers' Certificate to the effect that all Liens on the relevant Collateral that, as of the Issue Date, secure the obligations under the Notes and the Indenture pursuant to the Existing Mortgages Amendment Agreement and the New Mortgage Agreements and have been perfected, (y) copies of the documents evidencing the registration of the Existing Mortgages Amendment Agreement and the New Mortgage Agreements in favor of the Collateral Agent have been

obtained, and (z) an Opinion of Counsel to the Company that all Liens pursuant to the Existing Mortgages Amendment Agreement and the New Mortgage Agreements validly exist and have been perfected in accordance with Mexican law and constitute first priority Liens under applicable law.

The estimated value of the Collateral was approximately Ps.4.8 billion based upon appraisals conducted in December 2021.

Future Collateral

If, after the Issue Date, the Company or any Note Guarantor acquires any Acquired Material Asset (including any acquisition by means of a merger or consolidation with or into the Company or a Restricted Subsidiary) or any Replacement Collateral Assets, the Company shall, within 10 Business Days following the acquisition thereof, cause:

(1) a first priority perfected security interest in all of such Acquired Material Assets or Replacement Collateral Assets to be granted pursuant to one or more Security Documents on terms consistent (mutatis mutandis) with the Collateral securing the Notes on the Issue Date; *provided* that if, at the time of such acquisition, such Acquired Material Assets (but not Replacement Collateral Assets) are subject to a Lien in respect of Indebtedness (other than Indebtedness held by the Company, any of its Restricted Subsidiaries, any of their respective Affiliates or any Insider) that is not prohibited by the terms of the Indenture (except if such Lien was created in connection with, or in anticipation or contemplation of, such acquisition, then the Company or any Note Guarantor), the Company or the Company shall cause a second priority perfected security interest to be granted, which second priority security interest shall, by its terms, automatically become a first priority security interest if such existing Lien is subsequently released and discharged; and

(b) to be delivered to the Collateral Agent an Officers' Certificate and Opinion of Counsel stating that each such Security Document (i) has been duly authorized, executed and delivered by the Company or the relevant Note Guarantor, as applicable, and (ii) constitutes a valid and legally binding obligation of the Company or the relevant Note Guarantor that is enforceable in accordance with its terms, and constitutes a Liens of the applicable priority under applicable law.

Release of Collateral

The Company will be entitled to releases of assets included in the Collateral from the Liens under the Security Documents under any one or more of the following circumstances:

(1) in whole, if the Company exercises its legal defeasance option or covenant defeasance option as described below under "—Defeasance;"

(2) in whole, upon satisfaction and discharge of the Indenture as described below under "—Satisfaction and Discharge;"

(3) in part, pursuant to any disposition of assets permitted by the Indenture and the Security Documents, and subject to compliance with applicable law, it being understood that the Security Documents shall permit a disposition of Collateral as described under "—Collateral Asset Sales;"

(4) in whole or in part, as described under "—Amendment, Supplement and Waiver;" or

(5) in whole, upon payment of all principal, interest, Additional Interest, if any and all other obligations under the Notes,

provided that, in the case of any release in whole pursuant to the above clause, all amounts owing to the Trustee and the Collateral Agent under the Indenture, the Notes, the Note Guarantees and the Security Documents, have been paid or otherwise provided for to the reasonable satisfaction of the Trustee and the Collateral Agent.

Security Documents

Each of the Company and the Note Guarantors shall take, or cause to be taken, all actions necessary to maintain each Security Document to which it is a party in full force and effect and enforceable in accordance with its terms and to maintain and preserve the first priority Liens created by (or, as applicable, shall continue to exist pursuant to) such Security Documents and the priority thereof, including (i) making filings and recordations, (ii) making payments of fees, taxes and other charges on a timely basis, (iii) issuing and, if necessary, filing or recording supplemental documentation, including discharging all claims or other Liens adversely affecting the rights of any Secured Party in any Collateral, publishing or otherwise delivering notice to third parties, and (iv) taking all other actions either necessary or otherwise reasonably requested by the Collateral Agent (acting at the written instruction of the Trustee, who shall act as directed pursuant to the Indenture) to ensure that all Collateral is subject to a valid and enforceable first priority Lien in favor of the Collateral Agent for the benefit of the Secured Parties (except as otherwise permitted under the Indenture and the Security Documents).

At any time as the Trustee may reasonably request in writing, each of the Company and the Note Guarantors shall furnish, or cause to be furnished, to the Trustee and the Collateral Agent, one or more Opinions of Counsel stating that, in the opinion of such counsel, such action has been taken pursuant to the terms of the Security Documents with respect to (i) amending or supplementing the Security Documents (or providing additional Security Documents, notifications or acknowledgments) as is necessary to subject all the Collateral to first priority Liens pursuant to the Security Documents, and (ii) the recordation of the Security Documents (including, without limitation, any amendment or supplement thereto) and any other requisite documents. Any such Opinion of Counsel shall also describe the recordation of the Security Documents and any other requisite documents or the taking of any other action that will, in the opinion of such counsel, be required to maintain the Liens purported to be created by and exist pursuant to the Security Documents after the date of such opinion as first priority perfected security interests.

Certain covenants with respect to the Collateral

The Security Documents will contain provisions relating to identification of the Collateral and the maintenance of perfected Liens therein. The following is a summary of some of the covenants and provisions set forth in the Security Documents and the Indenture as they relate to the Collateral.

Maintenance of Collateral

The Security Documents and/or the Indenture, subject to certain exceptions, will provide that the Company and the Note Guarantors shall maintain the Collateral in good, safe and insurable operating order, condition and repair (ordinary wear and tear excepted) and to do all other acts as may be reasonably necessary or appropriate to maintain and preserve the Collateral. Notwithstanding the foregoing, the Company and the Note Guarantors shall be permitted to release Collateral secured by the Existing Pledge Amendment Agreements if each of the following conditions are satisfied: (a) the machinery to be released from the Liens pursuant to any of the Existing Pledge Amendment Agreements solely comprises machinery that is obsolete, surplus, worn-out or defective (where it is uneconomical to repair such defects), (b) the aggregate Fair Market Value of all machinery released pursuant to this provision (other than machinery that is replaced with machinery pledged as Collateral pursuant to sub-section (c)) shall not exceed $25,000 in any fiscal year, and (c) to the extent that such machinery was in use by the Company or its Restricted Subsidiaries in the ordinary course of business, then such machinery shall, concurrently with or prior to such release, be replaced with functioning machinery that shall be deemed to constitute Acquired Material Assets and pledged as Collateral securing the Notes.

The Security Documents and/or the Indenture also will provide, subject to certain exceptions, that the Company and the Note Guarantors shall pay all real estate and other taxes, and maintain in full force and effect all material permits and certain insurance coverages.

Further assurances

The Company and the Note Guarantors shall execute any and all further documents, agreements and instruments, and take all further actions that may be required under applicable law, or that the Collateral Agent or the Trustee may reasonably request, in order to grant, preserve, protect and perfect the validity and priority of the first priority security interests and Liens created or intended to be created by, or exist pursuant to, the Security Documents

in the Collateral. Such security interests and Liens will be created by or exist pursuant to under the Security Documents and other security agreements and other instruments and documents in form and substance reasonably necessary to grant a security interest and Lien to the Collateral Agent to secure the Obligations under the Indenture, the Notes, the Note Guarantees and the Security Documents.

Foreclosure

Upon the occurrence and during the continuance of an Event of Default and issuance of a notice of acceleration, the Security Documents will provide, among other things, for the foreclosure upon and sale of the applicable Collateral by the Collateral Agent and the distribution of the net proceeds of any such sale to the Holders on a pro rata basis, subject to the terms and provisions of the Security Documents. In the event of foreclosure on the Collateral, the proceeds from the sale of the Collateral may not be sufficient to satisfy in full the obligations of the Company under the Notes.

Collateral Asset Sales

The Company and the Note Guarantors shall have the right, but not the obligation, to sell, assign, transfer, lease, convey or otherwise dispose of any part of the Collateral ("*Collateral Asset Sales*") so long as the Net Cash Proceeds received by the Company and the Note Guarantors on account of such Collateral Asset Sales do not exceed U.S.$20.0 million in the aggregate (the "*Collateral Sale Cap*"), except as provided below, and subject to compliance with the provisions described under this section headed "Collateral Asset Sales."

The Company and each Note Guarantor will not consummate a Collateral Asset Sale unless:

(a) the Company or the applicable Note Guarantor, as the case may be, receives consideration at the time of consummation of the Collateral Asset Sale at least equal to the Fair Market Value of the assets sold or otherwise disposed of (with such Fair Market Value being determined by an Independent Financial Advisor whose written determination as to Fair Market Value shall be provided by the Company in an Officers' Certificate addressed to the Trustee);

(b) any Collateral Asset Sale that is to be made to, or for the benefit of, any Affiliate of the Company or any of its Restricted Subsidiaries or any Insider (in each case, other than to the Company or any of its Restricted Subsidiaries) shall have been consented to in writing in advance by the Holders of a majority in principal amount of the outstanding Notes;

(c) 100% of the consideration received for the assets sold by the Company or the relevant Note Guarantor, as the case may be, in the Collateral Asset Sale will be in the form of cash (either in U.S. dollars or in Mexican pesos) received at the time of consummation of such Collateral Asset Sale;

(d) the Net Cash Proceeds from such Collateral Asset Sale shall be deposited into the relevant Collateral Asset Sale Account; and

(e) the provisions described under "—Collateral Asset Sale Offers" will be complied with.

The Company and the Note Guarantors shall be permitted to consummate a Collateral Asset Sale that would cause the Collateral Sale Cap to be exceeded either (i) if such Collateral Asset Sale has been consented to in writing in advance by the Holders of a majority in principal amount of the outstanding Notes, or (ii) if the Net Cash Proceeds thereof are immediately used to redeem all of the Notes in accordance with the provisions under "—Optional Redemption—Redemption at the Option of the Company."

The Net Cash Proceeds from any Collateral Asset Sale shall be received only in U.S. dollars or Mexican pesos and shall be deposited into the Collateral Asset Sale Account corresponding to the currency in which such Net Cash Proceeds are received. The terms of the Collateral Asset Sale Accounts Pledge Agreement shall provide that the Collateral Agent, at the written instruction of the Trustee, shall have the right, without the consent of the Company or the Note Guarantors, to take such actions and make such transactions as are necessary to convert any balance in the Mexican peso-denominated Collateral Asset Sale Account into U.S. dollars in order to make such funds available in U.S. dollars in the U.S. dollar-denominated Collateral Asset Sale Account to satisfy the purchase price payable

pursuant to a Collateral Asset Sale Offer, and the Company and the Note Guarantors shall take such actions and make such transactions as are necessary or required in order to satisfy the Company's payment obligations in relation to Collateral Asset Sale Offers. The Collateral Agent shall be permitted to withdraw amounts from the Collateral Asset Sale Accounts on any Collateral Asset Sale Offer Payment Date, or up to two Business Days prior thereto, to satisfy the Company's obligation to pay the aggregate purchase price payable on such Collateral Asset Sale Offer Payment Date and the Collateral Agent shall be permitted to pay such amounts to the Paying Agent or, with respect to the Notes represented by one or more Global Notes, to DTC or its nominee in accordance with its applicable procedures; provided that any actions taken by the Collateral Agent shall be taken upon written instructions of the Trustee.

Collateral Asset Sale Offers

The Net Cash Proceeds of any Collateral Asset Sale shall be aggregated in the Collateral Asset Sale Accounts until the Company and the Note Guarantors have received (including through a deposit into a Collateral Asset Sale Account) U.S.$20.0 million (or the equivalent in Mexican pesos) in Net Cash Proceeds from Collateral Asset Sales, and unless the Company elects to do so earlier, once the Company and the Note Guarantors have received (including through a deposit into a Collateral Asset Sale Account) U.S.$20.0 million (or the equivalent in Mexican pesos) in Net Cash Proceeds from Collateral Asset Sales, the Company shall (and each Restricted Subsidiary shall be required to enable and cause the Company to), within 30 days thereof, apply such Net Cash Proceeds from Collateral Asset Sales as provided below.

The Company shall, within 30 days of receipt of the Net Cash Proceeds from a Collateral Asset Sale (which Net Cash Proceeds shall be deposited into the relevant Collateral Asset Sale Account), make an offer to purchase Notes (the "*Collateral Asset Sale Offer*") at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest thereon, to the date of purchase (the "*Collateral Asset Sale Offer Amount*"). The Company will purchase pursuant to a Collateral Asset Sale Offer from all tendering Holders on a pro rata basis, that principal amount of Notes to be purchased equal to such Net Cash Proceeds.

Each notice of a Collateral Asset Sale Offer will be given as provided under "—Notices" to the Holders, with a copy to the Trustee, offering to purchase the Notes as described above. Each notice of a Collateral Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is given, other than as may be required by law (the "*Collateral Asset Sale Offer Payment Date*"). Upon receiving notice of a Collateral Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of U.S.$1.00 in exchange for cash (provided that the remaining portion of such Holder's Note will not be less than U.S.$1,000.00).

On the Collateral Asset Sale Offer Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Collateral Asset Sale Offer;

(2) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company; and

(3) procure that the aggregate purchase price payable by the Company for the Notes to be purchased in the Collateral Asset Sale Offer be released from the Collateral Asset Sale Accounts and paid to the Paying Agent or, with respect to the Notes represented by one or more Global Notes, paid to DTC or its nominee in accordance with its applicable procedures.

To the extent Holders of Notes which are the subject of a Collateral Asset Sale Offer properly tender and do not withdraw Notes in an aggregate amount exceeding the amount of Net Cash Proceeds, the Company will purchase the Notes on a pro rata basis (based on amounts tendered). If only a portion of a Note is purchased pursuant to a Collateral Asset Sale Offer, a new Note in a principal amount permitted by the Indenture and equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to a Collateral Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to a Collateral Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the "Collateral Asset Sale" provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the "Collateral Asset Sale" provisions of the Indenture by doing so.

Upon completion of a Collateral Asset Sale Offer, to the extent that the aggregate amount of Notes tendered pursuant to a Collateral Asset Sale Offer is less than the aggregate amount of the Net Cash Proceeds from such Collateral Asset Sale (as deposited into the relevant Collateral Asset Sale Account), the Company shall, within 180 days of the date of the consummation of the Collateral Asset Sale Offer, use the remaining balance in the Collateral Asset Sale Accounts to invest in fixed assets to be used by the Company or any Note Guarantor in a Permitted Business ("*Replacement Collateral Assets*"). The Company shall procure that all Replacement Collateral Assets are granted as Collateral to secure the Notes pursuant to the provision described under "—Collateral—Future Collateral" above.

Optional Redemption

Redemption at the Option of the Company

The Company may redeem the Notes, at its option, in whole at any time or in part from time to time, at the redemption price of 101% of the principal amount thereof (plus accrued and unpaid interest on the Notes redeemed to the redemption date, subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant interest payment date).

Except as set forth in the paragraph above, no penalty, make-whole premium or other amount shall be payable upon an optional redemption pursuant to the provisions described above.

Optional Redemption for Changes in Withholding Taxes

If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any other jurisdiction in which the Company or a Note Guarantor is incorporated or organized, engaged in business for tax purposes, or resident for tax purposes, or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on and after the date of this Exchange Offer Memorandum, the Company or a Note Guarantor would be obligated, after taking all reasonable measures to avoid this requirement, to pay any Additional Interest in excess of those attributable to a Mexican withholding tax rate of 4.9% with respect to the Notes (see "—Additional Interest"), then, at the Company's option, all, but not less than all, of the Notes may be redeemed at any time at a redemption price, calculated by the Company, equal to 100% of the principal amount thereof (plus any accrued and unpaid interest and any Additional Interest to the redemption date due thereon up to but not including the date of redemption, subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant interest payment date); *provided* that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which the Company or, as the case may be, a Note Guarantor would be obligated to pay such Additional Interest if a payment on the Notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such Additional Interest remains in effect.

Prior to giving any notice of redemption to the Holders pursuant to this provision, the Company will deliver to the Trustee:

- an Officers' Certificate stating that the Company is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company to redeem the Notes have occurred; and

- an Opinion of Counsel from legal counsel of recognized standing to the effect that the Company or a Note Guarantor has or will become obligated to pay such Additional Interest as a result of such change or amendment.

The Company will give notice of any redemption at least 30 days (but not more than 60 days) before the redemption date to Holders of Notes as described in "—Optional Redemption Procedures" below.

Following any merger or other transaction described and permitted under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets" below, in which the Company or the Successor Company is organized under the laws of a Permitted Jurisdiction other than Mexico, all references to Mexico, Mexican law or regulations, and Mexican political subdivisions or taxing authorities under this "Optional Redemption for Changes in Withholding Taxes" section will be deemed also to include such other Permitted Jurisdiction, such other Permitted Jurisdiction's law or regulations, and any taxing authority of such other Permitted Jurisdiction or any political subdivision therein or thereof, respectively; *provided*, that for this purpose, the above reference to an amendment to or change of laws, rules or regulations occurring "on or after the date of this Exchange Offer Memorandum" shall instead be deemed to refer only to such amendments or changes occurring after the effective date of such merger or other transaction, and the above reference to "a Mexican withholding tax rate of 4.9%" shall instead refer to the applicable withholding tax rate of such other Permitted Jurisdiction as of the effective date of such merger or other transaction.

No Sinking Fund

The Company is not required to make any sinking fund payments with respect to the Notes.

Optional Redemption Procedures

In the event that less than all of the Notes are to be redeemed at any time, selection of Notes for redemption (including any Notes represented by certificated Notes) will be made on a pro rata basis, but subject to and in accordance with, the applicable procedures and requirements of DTC and subject to compliance with any requirements of the principal securities exchange, if any, on which Notes are listed. Notwithstanding the foregoing, no Notes of a principal amount of U.S.$1,000.00 or less may be redeemed in part and Notes of a principal amount in excess of U.S.$1,000.00 may be redeemed in part in multiples of U.S.$1.00 only.

Notice of any redemption will be given at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed as provided under "—Notices" (with a copy to the Trustee). Notices of redemption pursuant to the provisions described under "—Optional Redemption—Redemption at the Option of the Company" may be subject to the satisfaction (or, waiver by the Company in its sole discretion) of one or more conditions precedent. If such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice may state that, in the Company's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Company in its sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been (or, in the Company's sole determination, may not be) satisfied (or waived by the Company in its sole discretion) by the redemption date, or by the redemption date so delayed. If Notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any Note (or portion thereof) together with accrued and unpaid interest thereon through the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Redeemed Notes (or portions thereof) shall be cancelled and cannot be reissued.

Open Market Purchases

The Company or any of its Affiliates may purchase Notes in the market or in negotiated transactions at any time (in any manner and at any price); *provided* that (i) any such purchased Notes shall not be resold, and (ii) once purchased, such purchased Notes will not be counted as outstanding in determining the principal amount of Notes that has given their consent or vote under the Indenture.

Change of Control

Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (in integral multiples of U.S.$1.00; *provided* that the remaining portion of such Holder's Note will not be less than U.S.$1,000.00) of the Holder's Notes at a purchase price (the "*Change of Control Payment*") equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to the Change of Control Payment Date.

Within 60 days following the date upon which the Change of Control occurred, the Company must give a notice to each Holder as provided under "—Notices," with a copy to the Trustee, offering to purchase the Notes as described above (a "*Change of Control Offer*"). The Change of Control Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is given, other than as may be required by law (the "*Change of Control Payment Date*").

On the Business Day immediately preceding the Change of Control Payment Date, the Company will, to the extent lawful, deposit with the Paying Agent funds in an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer; and

(2) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount permitted by the Indenture and equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to a Change of Control Offer will be cancelled and cannot be reissued.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of an redemption for all outstanding Notes has been given pursuant to the Indenture as described above under the caption "—Optional Redemption—Redemption at the Option of the Company," unless and until there is a default in payment of the applicable redemption price.

The existing and future Indebtedness of the Company and its Subsidiaries may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the Notes upon a Change of Control may cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Indebtedness.

However, there can be no assurance that the Company would be able to obtain necessary financing.

Holders will not be entitled to require the Company to purchase their Notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction that does not constitute a Change of Control.

The Company will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the "Change of Control" provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Company and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Certain Covenants

The Indenture will contain, among others, the following covenants:

Limitation on Incurrence of Additional Indebtedness

(1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness, including Acquired Indebtedness, or permit any Restricted Subsidiary to Incur Preferred Stock.

(2) Notwithstanding clause (1) above, the Company and its Restricted Subsidiaries, as applicable, may Incur the following Indebtedness ("*Permitted Indebtedness*"):

(a) Indebtedness in respect of (i) the Notes and the Note Guarantees issued under the Indenture on the Issue Date, and (ii) any PIK Notes (and Note Guarantees in respect thereof) issued from time to time in respect of any PIK Interest in accordance with the terms of the Notes and the Indenture;

(b) Guarantees by the Company or any Note Guarantor of Indebtedness of the Company or any other Restricted Subsidiary permitted under the Indenture; *provided* that if any such Guarantee of a Note Guarantor is of Subordinated Indebtedness, then the Note Guarantee of such Note Guarantor will be senior to such Note Guarantor's Guarantee of such Subordinated Indebtedness;

(c) Indebtedness under the Concurrent Loan Facility and other Indebtedness or Preferred Stock of the Company and its Restricted Subsidiaries outstanding on the Issue Date (which, for the avoidance of doubt, shall not include the 2022 Notes redeemed on the Issue Date prior to, or substantially concurrently with, the issuance of the Notes); *provided* that any Indebtedness between the Company and any Restricted Subsidiary or among Restricted Subsidiaries outstanding on the Issue Date will be deemed Incurred pursuant to clause (e) and not this clause (c); and *provided, further* that any Indebtedness under the Notes and the Note Guarantees outstanding on the Issue Date will be deemed Incurred pursuant to clause (a) and not this clause (c);

(d) Hedging Obligations entered into by the Company and its Restricted Subsidiaries; *provided* that such Hedging Obligations are in the ordinary course of business and not for speculative purposes;

(e) Indebtedness or Preferred Stock between the Company and any Restricted Subsidiary or between any Restricted Subsidiaries ("*Intercompany Indebtedness*") (in each case, other than a Receivables Subsidiary); *provided* that:

(1) if the Company or any Note Guarantor is an obligor of such Indebtedness and the obligee is not the Company or a Note Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the Notes and the Indenture, in the case of the Company, or such Note Guarantor's Note Guarantee, in the case of any such Note Guarantor; and

(2) in the event that at any time any such Indebtedness or Preferred Stock ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness or Preferred Stock will be deemed to be Incurred and not permitted by this clause (e) at the time such event occurs;

(f) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; *provided*, that such Indebtedness is extinguished within five Business Days of Incurrence;

(g) the Incurrence of Indebtedness by the Company or any of its Restricted Subsidiaries in the form of performance bonds, completion guarantees and surety or appeal bonds entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of their business;

(h) the Incurrence of Indebtedness by the Company or any of its Restricted Subsidiaries owed to any Person in connection with workers' compensation, self-insurance, health, disability or other employee benefits or property, casualty or liability insurance provided by such Person to the Company or such Restricted Subsidiary, pursuant to reimbursement or indemnification obligations to such Person, in each case Incurred in the ordinary course of business;

(i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred in connection with the disposition of any business, assets or Capital Stock of the Company or a Restricted Subsidiary; *provided* that the maximum aggregate liability in respect of all such Indebtedness under this clause will at no time exceed the gross proceeds actually received by the Company or the Restricted Subsidiary in connection with such disposition;

(j) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to clause (a) or (c) or this clause (j) of this clause (2) (excluding Indebtedness owed to the Company or a Subsidiary of the Company);

(k) Indebtedness Incurred in connection with customer deposits and advance payments received from customers for the sale or payment of goods and services in the ordinary course of business of the Company or any Restricted Subsidiary;

(l) Indebtedness of the Company or any of its Restricted Subsidiaries Incurred to fund the working capital and other operating needs of the Company or any Restricted Subsidiary in an aggregate principal amount at any one time outstanding not to exceed U.S.$50.0 million ("*Working Capital Indebtedness*");

(m) Indebtedness of the Company in connection with (1) any Qualified Receivables Transaction, or (2) obligations pursuant to receivables or factoring arrangements or facilities in the ordinary course of business, in each case in a true sale transaction without recourse to the Company or its Restricted Subsidiaries that would not be required to be classified and accounted for as debt under IFRS; and

(n) Indebtedness or Preferred Stock of the Company or any Restricted Subsidiary Incurred to (1) improve the productivity of the Company or any of its Restricted Subsidiaries in a Permitted Business, or (2) make capital expenditures (including refurbishments) to be used by the Company or any of its Restricted Subsidiaries in a Permitted Business, in an aggregate principal amount Incurred pursuant to (1) and (2) not to exceed U.S.$20.0 million at any one time outstanding ("*Productivity and Capital Expenditure Indebtedness*").

(3) For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant, the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with IFRS. The accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock or Preferred Stock with the same terms will not be deemed to be an

Incurrence of Indebtedness for purposes of this covenant; *provided*, that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of clause (2) of this covenant will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision. For purposes of determining compliance with this "Limitation on Incurrence of Additional Indebtedness" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (2)(a) through (n) above, the Company will be permitted to classify such item of Indebtedness on the date of its Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses, although the Company may divide and classify an item of Indebtedness in one or more of the types of Indebtedness and may later re-divide or reclassify all or a portion of such item of Indebtedness in any manner that complies with this covenant; Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness, but may be permitted in part by such provision and in part by one or more other provisions of this covenant permitting such Indebtedness. Guarantees of, or obligations in respect of letters of credit or similar instruments relating to, Indebtedness which is otherwise included in the determination of particular amount of Indebtedness will not be included.

(4) For purposes of determining compliance with any U.S. dollar-denominated restriction on the Indebtedness Incurred, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a non-U.S. currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred or, in the case of revolving credit Indebtedness, first committed; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a non-U.S. currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, will be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing. Notwithstanding any other provision of this covenant, neither the Company nor any Restricted Subsidiary shall, with respect to any outstanding Indebtedness Incurred, be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a "*Restricted Payment*"):

(a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:

- dividends or distributions payable in Qualified Capital Stock of the Company;
- dividends or distributions payable to the Company and/or a Restricted Subsidiary; or
- dividends, distributions or returns of capital made on a pro rata basis to the Company and its Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on less than a pro rata basis to any minority holder);

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Company) any Capital Stock of the Company held by a Person other than a Restricted Subsidiary;

(c) purchase, defease, redeem, prepay (including with respect to principal), decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness (other than intercompany Indebtedness), except for the purchase, defeasance, redemption, prepayment, decrease or other acquisition of such Subordinated Indebtedness (i) from the Company or a Restricted Subsidiary, or (ii) made in anticipation of satisfying a scheduled final maturity, scheduled repayment or scheduled sinking fund payment, in

each case, due within one year of the date of such purchase, defeasance, redemption, prepayment, decrease or other acquisition; or

(d) make any Investment (other than Permitted Investments).

Notwithstanding the preceding paragraph and notwithstanding the provision described below under "— Limitation on Payments of Shareholder Payables," the Company shall be permitted to make one or more Restricted Payments in an aggregate amount not to exceed U.S.$7.0 million (or the equivalent in other currencies) in any fiscal year if each of the following conditions is satisfied at the time that any such Restricted Payment is made: (i) immediately before and immediately after giving effect to such Restricted Payment, no Default or Event of Default shall have occurred and be continuing, (ii) immediately before and immediately after giving effect to such Restricted Payment, the Company and its Restricted Subsidiaries have cash and Cash Equivalents (as recognized in a consolidated balance sheet of the Company prepared as of such date pursuant to IFRS) of at least U.S.$10.0 million (excluding from such calculation any cash in the Collateral Asset Sale Accounts), (iii) such Restricted Payments solely comprise dividends or distributions on or in respect of shares of Capital Stock of the Company paid by the Company in cash to individuals that are direct or indirect shareholders of the Company as compensation for services rendered by that individual to the Company and its Restricted Subsidiaries as an employee of the Company or a Restricted Subsidiary for services rendered as such, provided that no other form of compensation is paid or payable to such individual by the Company or any of its Restricted Subsidiaries, and (iv) such Restricted Payments are made in the ordinary course of business of the Company and its Restricted Subsidiaries and are consistent with past practices of the Company and its Restricted Subsidiaries.

Limitation on Payments of Shareholder Payables

Notwithstanding any other provision of the Indenture or the Notes, neither the Company nor any Restricted Subsidiary will, directly or indirectly, for so long as the Notes remain outstanding, make any payments to any direct or indirect shareholder of the Company or any Restricted Subsidiary (other than a shareholder that is the Company or any other Restricted Subsidiary) on or in respect of, refinance, purchase, defease, redeem, prepay, repay, decrease or otherwise acquire or retire for value, whether at maturity or otherwise (including all payments in respect of principal, premium, interest, fees or other amounts, however described) (each a "*Shareholder Payable*"):

(i) any loans, distributions or financings or other similar transactions made to or for the benefit of (or that constitute obligations of), the Company or any Note Guarantor by (or owed to or for the benefit of) any direct or indirect shareholder of the Company or any Restricted Subsidiary (other than a shareholder that is the Company or any other Restricted Subsidiary) (or any successor, assignee or affiliate thereof); and

(ii) any real estate lease or financial arrangement where such Shareholder Payable is payable to or for the benefit of any direct or indirect shareholder of the Company or any Restricted Subsidiary (other than a shareholder that is the Company or any other Restricted Subsidiary) (or any successor, assignee or affiliate thereof).

Limitation on Prepayment of Concurrent Loan Facility

Notwithstanding any other provision of the Indenture or the Notes, neither the Company nor any Restricted Subsidiary will, directly or indirectly, for so long as the Notes remain outstanding, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, in each case with respect to principal, premium and/or interest, all or any part of the Indebtedness under the Concurrent Loan Facility, in each case, other than pursuant to any scheduled amortization date, scheduled final maturity, scheduled interest payment date, scheduled principal or premium payment date or mandatory prepayment date (including amounts required to be paid under cash sweep provisions) pursuant to the terms of the Concurrent Loan Facility in effect on the Issue Date.

Limitation on Asset Sales and Sales of Subsidiary Stock

Asset Sales and Sales of Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(a) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of the consummation of the Asset Sale at least equal to the Fair Market Value of the assets or Capital Stock sold or otherwise disposed of; and

(b) at least 75% of the consideration received for the assets or Capital Stock sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale will be in the form of (i) cash or Cash Equivalents received at the time of consummation of such Asset Sale, or (ii) Additional Assets received at the time of consummation of such Asset Sale.

provided, *however*, that none of the Company nor any of its Restricted Subsidiaries may consummate an Asset Sale with respect to any assets or property comprising the Collateral, unless such transaction is permitted under the applicable Security Documents and not prohibited under the Indenture.

The Company or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days of the consummation of such Asset Sale to:

(a) repay, prepay or purchase the Notes;

(b) purchase (or enter into a binding agreement to purchase; *provided* that such purchase is consummated within 18 months after the date that is 365 days after such Asset Sale): (A) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Note Guarantor in a Permitted Business; or (B) Capital Stock of a Person principally engaged in a Permitted Business that will become, upon purchase, a Note Guarantor, from a Person other than the Company and its Restricted Subsidiaries;

(c) make capital expenditures (including refurbishments) to be used by the Company or any Note Guarantor in a Permitted Business; and

(d) any combination of repayment and investment permitted by the foregoing clauses (a) through (c),

provided that pending the final application of any such Net Cash Proceeds in accordance with this paragraph, the Company and any Restricted Subsidiary may temporarily reduce Indebtedness (other than Indebtedness under the Concurrent Loan Facility) or otherwise invest such Net Cash Proceeds in any manner not prohibited by the Indenture.

The Net Cash Proceeds of any Asset Sale not applied within the 365 days (or in the case of clause (b), if applicable, 18 months thereafter) of consummation of the Asset Sale as described in clause (a), (b), (c), or (d) of the immediately preceding paragraph shall constitute "Excess Proceeds." Excess Proceeds of less than U.S.$10.0 million will be carried forward and accumulated. When accumulated Excess Proceeds equals or exceeds U.S.$10.0 million, the Company shall, within 60 days, make an offer to purchase Notes (the "*Asset Sale Offer*"), at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest thereon, to the date of purchase (the "*Asset Sale Offer Amount*"). The Company will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, that principal amount of Notes to be purchased equal to such Excess Proceeds.

Each notice of an Asset Sale Offer will be given as provided under "—Notices" to the Holders, with a copy to the Trustee, offering to purchase the Notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is given, other than as may be required by law (the "*Asset Sale Offer Payment Date*"). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of U.S.$1.00 in exchange for cash (*provided* that the remaining portion of such Holder's Note will not be less than U.S.$1,000.00).

On the Business Day immediately preceding the Asset Sale Offer Payment Date, the Company will, to the extent lawful deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all Notes or portions thereof so tendered.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions thereof properly tendered pursuant to the Asset Sale Offer; and

(2) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

To the extent Holders of Notes which are the subject of an Asset Sale Offer properly tender and do not withdraw Notes in an aggregate amount exceeding the amount of Excess Proceeds, the Company will purchase the Notes on a *pro rata* basis (based on amounts tendered). If only a portion of a Note is purchased pursuant to an Asset Sale Offer, a new Note in a principal amount permitted by the Indenture and equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the "Asset Sale" provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the "Asset Sale" provisions of the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of Excess Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of Notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of Excess Proceeds, the Company may use any remaining Excess Proceeds for any purpose not otherwise prohibited by the Indenture.

Kaltex Fibers Business Sales

Notwithstanding any other provision of the Indenture or the Notes, the Company will not, and will not permit any of its Restricted Subsidiaries to, consummate, directly or indirectly, any sale, disposition of, issuance, conveyance, transfer, lease, assignment or other transfer (including a Sale and Leaseback Transaction) of any property, assets, business or revenue of or used in, or Capital Stock of, the Kaltex Fibers Business or any Kaltex Fibers Subsidiary (a "*Kaltex Fibers Business Sale*"), unless:

(a) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of consummation of the Kaltex Fibers Business Sale at least equal to the Fair Market Value of the assets or Capital Stock sold or otherwise disposed of;

(b) 100% of the consideration received for the assets or Capital Stock sold by the Company or the Restricted Subsidiary, as the case may be, in the Kaltex Fibers Business Sale will be in the form of cash received at the time of consummation of such Kaltex Fibers Business Sale; and

(c) any Kaltex Fibers Business Sale that is to be made to, or for the benefit of, any Affiliate of the Company or any of its Restricted Subsidiaries or any Insider (in each case, other than to the Company or any of its Restricted Subsidiaries) shall have been consented to in writing in advance by the Holders of a majority in principal amount of the outstanding Notes.

The Company or such Restricted Subsidiary, as the case may be, shall apply the Net Cash Proceeds of any such Kaltex Fibers Business Sale within 180 days of the consummation of such Kaltex Fibers Business Sale to:

(a) repay, prepay or purchase outstanding Notes pursuant to the provisions of "—Open Market Purchases," including through purchases of Notes consummated through offers to purchase Notes made by the Company or any of its Restricted Subsidiaries, in each case made in compliance, to the extent applicable, with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws; *provided* that the Company or any of its Restricted Subsidiaries shall also be entitled to concurrently repay the Concurrent Loan Facility in an amount not to exceed the *pro rata* portion of such Net Cash Proceeds (based on the principal amount outstanding under the Concurrent Loan Facility as it bears to the sum of the principal amounts outstanding under the Notes and the Concurrent Loan Facility, in each case based on amounts outstanding immediately prior to the application of such net proceeds); and/or

(b) make capital expenditures (including refurbishments) to be used by the Company or any Note Guarantor in a Permitted Business; and/or

(c) any combination of repayment and investment permitted by the foregoing clauses (a) and (b),

provided that pending the final application of any such Net Cash Proceeds in accordance with this paragraph, the Company and any Restricted Subsidiary may invest such Net Cash Proceeds in any manner not prohibited by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(a) Except as provided in clause (b) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;

(2) make loans or advances to, or make any Investment in, the Company or any other Restricted Subsidiary; or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) Clause (a) will not apply to encumbrances or restrictions:

(1) existing under or by reason of applicable law, rule, regulation or order;

(2) existing under or by reason of the Indenture, the Notes or the Note Guarantees;

(3) on the transfer of assets subject to any Permitted Lien;

(4) existing under or by reason of the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or refinancing thereof; *provided*, that any amendment, modification, restatement, renewal, restructuring, replacement or refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;

(5) which are customary restrictions on cash or other deposits imposed by customers under contracts or other arrangements entered into or agreed in the ordinary course of business;

(6) existing under or by reason of customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting or transfer of any property or asset that is subject to a lease or license;

(7) with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement that has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary that is not prohibited by the terms of the Indenture; *provided*, that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;

(8) which are customary restrictions imposed on the transfer of copyrighted or patented materials;

(9) which are contractual requirements Incurred with respect to a Qualified Receivables Transaction relating exclusively to a Receivables Subsidiary that, in the good faith determination of the Kaltex Board, are necessary to effect such Qualified Receivables Transaction;

(10) which are Capitalized Lease Obligations for assets acquired in the ordinary course of business that impose encumbrances and restrictions only on the assets so acquired or subject to lease;

(11) existing under or by reason of an agreement governing Indebtedness Incurred to Refinance the Indebtedness issued, assumed or Incurred pursuant to an agreement referred to in clause (4) above; *provided*, that such Refinancing agreement is not materially more restrictive with respect to such encumbrances or restrictions than those contained in the agreement referred to in such clause (4);

(12) existing under or by reason of any agreement governing Indebtedness of any Restricted Subsidiary that is permitted to be Incurred by the covenant described under "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;" *provided* that the encumbrance or restriction is customary in comparable financings and will not materially affect the Company's ability to pay interest or principal, when due, on the Notes;

(13) contained in the terms of any purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business and Capitalized Lease Obligations that impose restrictions on the property purchased or leased of the nature described in paragraph (a)(3) of this covenant;

(14) existing under or by reason of Liens permitted to be Incurred (including Permitted Liens) under the provisions of the covenant described below under the caption "—Certain Covenants—Limitation on Liens" that limits the right of the debtor to dispose of the assets securing such Indebtedness; or

(15) existing under or by reason of provisions limiting the payment of dividends in the organizational documents, shareholders' agreements, joint venture agreements or similar documents of, or related to, Restricted Subsidiaries that are not Wholly-Owned Subsidiaries and which have been entered into with the approval of the Kaltex Board.

Limitation on Liens

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur or suffer to exist any Liens of any kind (except for any Permitted Liens) against or upon any of their respective properties or assets (including Capital Stock of Restricted Subsidiaries), whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, without effectively providing that the Notes and all other amounts due under the Indenture are secured equally and ratably with (or, if the obligation to be secured by the Lien is subordinated in right of payment to the Notes or any Note Guarantee, prior to) the obligations so secured for so long as such obligations are so secured; provided, however, that none of the Company nor any of its Restricted Subsidiaries will Incur, permit or suffer to exist any Liens (including no Permitted Liens) on any of the Collateral, unless such Lien is contemplated by or permitted under the applicable Security Documents.

Notwithstanding any other provision of the Indenture or the Notes, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur or suffer to exist any Liens of any kind against or upon any properties, assets, business or revenue of or used in, or Capital Stock of, the Kaltex Fibers Business, any Kaltex Fibers Subsidiary, the Energy Generation Plant or any Energy Generation Subsidiary.

Limitation on Merger, Consolidation and Sale of Assets

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the Company's properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

(a) either:

(1) the Company shall be the surviving or continuing corporation, or

(2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries) (the "*Successor Company*"):

(A) will be a corporation organized and validly existing under the laws of Mexico, the United States, or any state of the United States or the District of Columbia (each such country, a "*Permitted Jurisdiction*"), and

(B) will expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of all amounts under the Indenture and the principal of, and premium, if any, and interest on all of the Notes and the performance and observance of every covenant of the Notes and the Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction (and the assumption contemplated by clause (a)(2)(B) above if applicable) (including giving effect on a pro forma basis to any Indebtedness Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Successor Company, as the case may be, will have a Consolidated Total Indebtedness to Consolidated EBITDA Ratio no worse than the Consolidated Total Indebtedness to Consolidated EBITDA Ratio immediately prior to such transaction;

(c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing;

(d) each Note Guarantor (including Persons that become Note Guarantors as a result of the transaction) has confirmed by supplemental indenture that its Note Guarantee will apply for the Obligations of the Successor Company in respect of the Indenture and the Notes, to the extent applicable; and

(e) the Company or the Successor Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture(s) executed by the Successor Company and/or any Note Guarantor, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing corporation, the Successor Company formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such Successor Company had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Successor Company, if applicable) under "—Change of Control," if applicable.

Each Note Guarantor will not, and the Company will not cause or permit any Note Guarantor to, consolidate with or merge with or into, or sell, assign, transfer, convey or otherwise dispose of all or substantially all of its assets to, any Person (other than the Company) that is not a Note Guarantor unless:

(1) the surviving entity (if such Person is not the Company or another Note Guarantor) assumes all of the obligations of such Note Guarantor in respect of its Note Guarantee by executing a supplemental indenture and providing the Trustee with an Officers' Certificate and Opinion of Counsel certifying

that such transaction is otherwise in compliance with the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied;

(2) the Note Guarantee of such Note Guarantor is, concurrently with such transaction, released as provided under "—Note Guarantees;" or

(3) such sale or other disposition of substantially all of such Note Guarantor's assets is made in accordance with "—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock" or "—Collateral—Collateral Asset Sales" and is otherwise in accordance with the Indenture.

Limitation on Transactions with Affiliates

(1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an "*Affiliate Transaction*"), unless:

(a) the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arms'-length basis from a Person that is not an Affiliate of the Company;

(b) in the event that such Affiliate Transaction or a series of related Affiliate Transactions involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of U.S.$10.0 million, the terms of such Affiliate Transaction will be approved by a majority of the members of the Kaltex Board (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Kaltex Board has determined that such transaction complies with the preceding provisions; and

(c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value in excess of U.S.$50.0 million, the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor and deliver the same to the Trustee.

(2) The restrictions above will not apply to:

(a) Affiliate Transactions with or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries (in each case, other than any Receivables Subsidiary);

(b) reasonable fees and compensation (including any issuance of securities, or other payments, awards or grants in securities) paid to, and any indemnity provided on behalf of, officers, directors, employees, consultants or agents of the Company or any Restricted Subsidiary as determined in good faith by the Company or the Kaltex Board;

(c) Affiliate Transactions undertaken pursuant to any contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date and as the same may be amended, modified or replaced from time to time so long as any such amendment, modification or replacement is not less favorable in any material respect to the Company and the Restricted Subsidiaries than the original agreement as in effect on the Issue Date, except for any extension of the time period thereof);

(d) any Restricted Payments made in compliance with "—Certain Covenants—Limitation on Restricted Payments;"

(e) sales or other transfers or dispositions of accounts receivable and other related assets customarily transferred in an asset securitization transaction involving accounts receivable to a Receivables Subsidiary in a Qualified Receivables Transaction, and acquisitions of Permitted Investments in connection with a Qualified Receivables Transaction;

(f) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary for travel, entertainment, moving and other relocation expenses, in each case made in the ordinary course of business and not exceeding U.S.$2.0 million (or the equivalent in other currencies) outstanding at any one time; and

(g) the issuance of Capital Stock (other than Disqualified Capital Stock) of the Company to Affiliates of the Company or transactions in which the consideration provided by the Company consists of its Capital Stock.

(3) Notwithstanding any other provision of the Indenture or the Notes, neither the Company nor any of its Restricted Subsidiaries shall, directly or indirectly, sell, dispose of, issue, convey, transfer, lease, assign or otherwise transfer (including a Sale and Leaseback Transaction) any property, assets, business or revenue of or used in, or Capital Stock of, the Kaltex Fibers Business, any Kaltex Fibers Subsidiary, the Energy Generation Plant, or any Energy Generation Subsidiary, in each case to, or for the benefit of, any Affiliate of the Company or any of its Restricted Subsidiaries or any Insider (in each case, other than to the Company or any of its Restricted Subsidiaries) (a "*Specified Affiliate/Insider Disposition*"), unless such Specified Affiliate/Insider Disposition has been consented to in writing in advance by the Holders of a majority in principal amount of the outstanding Notes.

Conduct of Business

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Board Observer

For so long as any Notes are Outstanding, the Holders of a majority in principal amount of the Outstanding Notes shall have the right (but not the obligation), in their sole discretion, to designate one individual as a Board Observer in accordance with the provisions described in this section. On the Issue Date, the individual designated as the Board Observer shall be specified in the Indenture.

The Board Observer shall be entitled to be invited to and attend each meeting of the Kaltex Board (including each meeting of any committee thereof) (each, a "*Meeting*"), such attendance to be in person, by telephone or by video conference, at the discretion of the Board Observer. The Kaltex Board (which, for the purposes of this sentence shall not include any committees thereof), shall meet at least one every fiscal quarter. The Company shall comply with the Mexican Corporations Law (*Ley General de Sociedades Mercantiles*), any other applicable law and the constitutional documents of the Company (including its by-laws, as amended from time to time) relating to the frequency of Meetings. The Board Observer shall be entitled to participate in discussions of any matters discussed or presented at any Meeting, but the Board Observer shall not be entitled to vote on any such matters. The Board Observer is not, and shall not be deemed to be, a director, officer or employee of the Company or any of its Restricted Subsidiaries. The Company and its Subsidiaries shall not have any labor or employment obligations with respect to the Board Observer. The Board Observer shall not have any authority to act on behalf of, or to represent, the Company or any of its Subsidiaries.

The Company shall be entitled to require that the Board Observer execute or otherwise become subject to any codes of conduct, confidentiality agreements and policies with respect to compliance with securities laws as the Company may reasonably require; provided that all members of the Kaltex Board have also executed or are otherwise subject to any such code, agreement or policy.

On or prior to the date that an individual is designated as a Board Observer, the Company shall execute an Indemnification Agreement in favor of such Board Observer and shall maintain the Indemnification Agreement in full force and effect for so long as such individual remains the Board Observer.

The Company shall pay the Board Observer cash compensation in U.S. dollars of U.S.$5,000 per each calendar quarter that such individual is a Board Observer (which amount shall be prorated for any partial calendar quarter during which such individual is a Board Observer). Such amount shall be paid on the day that an individual is appointed as a Board Observer (in respect of the quarter in which an individual is appointed as a Board Observer) and shall be paid in advance on the first day of each calendar quarter thereafter. In addition, the reasonable and documented costs and expenses incurred by the Board Observer in connection with attendance at Meetings or otherwise, including, but not limited to, the reasonable travel within North America and South America (limited to commercial airlines with respect to air travel) and lodging costs, shall be paid by the Company after receipt of a written request by the Board Observer for such payment.

The Company and/or the Secretary of the Kaltex Board, as applicable, shall (i) provide the Board Observer with reasonable advance written notice of the time, place, telephonic (or other remote access) information and agenda for, and matters to be discussed at, each Meeting (but in no event shall such notice be given to the Board Observer later than the time at which such notice is provided to any member of the Kaltex Board) and, in the case of any proposed action by written consent in lieu of a Meeting, shall provide the Board Observer with copies of all consent materials no later than the time that such materials are provided to any member of the Kaltex Board, (ii) provide the Board Observer with copies of all minutes of each Meeting and all written consents in lieu of any Meeting promptly after such Meeting has been adjourned or such consent has been executed, as applicable, and (iii) provide the Board Observer with copies of all documents, materials and other information given to any member of any Kaltex Board no later than the time at which any member of the Kaltex Board is provided with such documents, materials or other information.

Notwithstanding any other provision, the Company shall be entitled exclude the Board Observer from access to any material or Meeting (or portion thereof) to the extent that the Company determines in good faith, upon advice of external counsel, that (i) such exclusion is necessary to preserve any attorney-client privilege to which the Company or any of its Restricted Subsidiaries is entitled, or (ii) such access would result in a violation of applicable law or regulation by the Company or any of its Restricted Subsidiaries. The Company shall provide reasonable advance notice to the Board Observer if the Company intends to exclude the Board Observer from attending all or any portion of any Meeting or from receiving all or any portion of any materials, describing the basis for such exclusion (except where providing such description would constitute a violation of applicable law or regulation by the Company or any of its Restricted Subsidiaries), and the Company shall cooperate with the Board Observer in good faith to limit to the maximum extent reasonably possible the degree to which the Board Observer will be excluded from such portions of such Meetings or receiving such materials.

None of the Board Observer, the Trustee, any Holder or any beneficial owner of the Notes shall have or owe any duty or obligation, fiduciary or otherwise, or be subject to any liability, to the Kaltex Board, the Company or any of its Restricted Subsidiaries as a result of or in connection with the Board Observer role or any of the rights related thereto. For the avoidance of doubt, the Board Observer shall not be required to attend any Meeting.

The initial Board Observer shall serve as the Board Observer until such time as such individual (i) resigns at their sole discretion, (ii) is removed by the Company after the Board Observer has been convicted of a crime involving fraud, self-dealing, material dishonesty or material misrepresentation under the criminal law of any jurisdiction, (iii) is removed by Holders of a majority in principal amount of the Outstanding Notes, or (iv) a new Board Observer is designated in writing by Holders of Holders of a majority in principal amount of the Outstanding Notes, in each case with written notice to the Trustee.

If, at any time there is no Board Observer appointed, unless otherwise directed in writing by Holders of a majority in principal amount of the Outstanding Notes, no later than 60 days after such vacancy arose, the Company shall notify the Holders as provided under "—Notices" (with a copy to the Trustee), which notice shall (i) announce the solicitation from Holders of nominees to act as Board Observer, and (ii) provide, in reasonable detail, an explanation of the procedures to be followed for the election of the Board Observer, which such explanation shall provide, at a minimum: (a) that Holders shall have the right to nominate candidates to the position of Board Observer; (b) that the Company shall publish reasonably detailed professional biographical information of each such nominee; (c) that Holders shall have the right to participate in the election of the Board Observer via mail, facsimile, electronic voting or other similar methodology (which may include the procedures customarily used for in the solicitation of consents in respect of debt securities held through DTC); and (iii) the Company shall thereafter conduct such solicitation and nomination within 60 days after the date of such notice. The Company shall only be required to appoint

a Board Observer pursuant to these provisions if Holders of a majority in principal amount of the Outstanding Notes elect, approve or consent to such appointment.

These provisions shall not amend, modify, reduce, supersede, alter or otherwise change any of the covenants or obligations of the Company or any of its Restricted Subsidiaries in the Indenture, the Notes or the Security Documents to provide notices, documents, materials, reports and/or other information to the Trustee and/or the Holders.

Reports to Holders

The Company will provide the Trustee with the following reports:

(a) an English language version in electronic format of the annual audited consolidated financial statements of the Company and its Subsidiaries prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 135 days after the close of each fiscal year;

(b) an English language version in electronic format of the unaudited quarterly financial statements of the Company and its Subsidiaries prepared in accordance with IFRS, promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of each fiscal year);

(c) without duplication, upon request, English language versions or summaries in electronic format of such other reports or notices as may be filed or submitted by (and within 10 days after filing or submission by) the Company with (i) the CNBV, and (ii) any stock exchange on which the Notes or the Capital Stock of the Company may be listed, in each case, to the extent that any such report or notice is generally available to the Company's securityholders or the public in Mexico or elsewhere; *provided*, *however*, that the Trustee shall not be responsible for determining whether or not the Company is required to file any reports or notices described in this clause (c) and, if any such notice or report is required, whether or not the Company has filed or submitted such notice or report within the time period specified in this clause (c); *provided*, *further* that the Company shall not be required to furnish such information to the extent such information is available on the Company's website, the website of the CNBV or the website of any stock exchange or to the extent that the information contained therein is not materially different than the information provided pursuant to clause (a) and (b) above; and

(d) so long as the Company is not subject to Section 13 or Section 15(d) of the Exchange Act and exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, upon request, to any Holder and any prospective purchaser of the Notes, the information required pursuant to Rule 144A(d)(4) under the Securities Act.

The Company will maintain a public website on which the reports and information referred to in clauses (a), (b), (c), and (d) above are posted. The reports and information on such website shall only be deemed delivered to the Trustee on the date that the Company notifies the Trustee, in writing, that such reports and information are otherwise available on such website.

Simultaneously with the delivery of each set of financial statements referred to in clause (a) above, the Company will provide the Trustee with an Officers' Certificate stating whether a Default or Event of Default exists and is continuing on the date of such certificate and, if a Default or Event of Default exists and is continuing, setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto. Upon any of the Company's directors or executive officers becoming aware of the existence of a Default or Event of Default or any event by reason of which payments by the Company of either principal or interest on the Notes are prohibited, the Company will provide the Trustee with an Officers' Certificate setting forth the details thereof and the action the Company is taking or proposes to take with respect thereto.

Delivery of the above information and reports to the Trustee is for informational purposes only and the Trustee's receipt of such reports will not constitute actual or constructive notice of any information contained therein

or determinable from information contained therein, including the compliance by the Company with any covenant in the Indenture (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Other Covenants

The Indenture shall also include certain additional customary covenants including maintenance of office or agency, corporate existence of the Company and each Note Guarantor, payment of taxes and other claims and maintenance of books and records.

Payments for Consent

Neither the Company nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder of any Notes for or as an inducement to any consent, waiver or amendment of any terms or provisions of the Notes, unless the consideration is offered to be paid or agreed to be paid to all Holders of the Notes which so consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Listing

Application will be made to have the Notes listed and quoted on the Official List of the SGX-ST on the Issue Date or the following Business Day. For so long as any Notes are outstanding, the Company will use commercially reasonable efforts to obtain and maintain listing of the Notes on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes shall be traded in a minimum board lot size of US$200,000 (or its equivalent in foreign currencies).

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, upon any issuance of individual definitive Notes, the Company will appoint and maintain a Paying Agent in Singapore where such individual definitive Notes may be presented or surrendered for payment or redemption. In the event that the Global Notes are exchanged for individual definitive Notes, the Company shall procure that an announcement is made through the SGX-ST that will include all material information with respect to the delivery of the individual definitive Notes, including details of the Paying Agent in Singapore and where the individual definitive Notes may be presented or surrendered for payment or redemption. The Company will provide prompt notice of the termination, appointment or change in the office of any Singapore Paying Agent acting in connection with the Notes.

Notices

Notices to a Holder of a certificated Note that is not a Global Note shall be delivered in person, or mailed by first class mail, postage prepaid, or by overnight courier, at its address set forth in the register maintained by the Registrar. Notices to Holders of Global Notes shall be given to DTC in accordance with its applicable procedures.

Events of Default

The following are "*Events of Default*":

(1) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of or premium, if any, on any Notes, including the failure to make a required payment to purchase Notes tendered pursuant to an optional redemption, a Change of Control Offer, an Asset Sale Offer or a Collateral Asset Sale Offer;

(2) default for 30 days or more in the payment when due of interest (irrespective of whether payment was to be made in the form of Cash Interest or PIK Interest) or Additional Interest on any Notes;

(3) the failure by the Company and its Restricted Subsidiaries to perform or comply with any of the provisions described under "—Certain Covenants—Merger, Consolidation and Sales of Assets;"

(4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the Notes (other than as described under clauses (1), (2), and (3) above, which are covered by such clauses) for 60 days or more after written notice to the Company from the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes;

(5) a default, event of default, event of accelerated maturity (*causa de vencimiento anticipado*), early termination or acceleration (however described) occurs under the Concurrent Loan Facility or any enforcement action is taken in respect of any collateral securing the Concurrent Loan Facility, including the taking of any steps to foreclose, enforce or require the foreclosure or enforcement against any of the collateral securing the Concurrent Loan Facility or otherwise exercise any rights or remedies with respect to such collateral;

(6) default by the Company or any Restricted Subsidiary under any Indebtedness, whether such Indebtedness exists on the Issue Date, or is created after the Issue Date, if that default:

(a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of any applicable grace period provided in such Indebtedness; or

(b) results in the acceleration of such Indebtedness prior to its Stated Maturity,

and the principal or accreted amount of Indebtedness covered by (a) or (b) at the relevant time, aggregates U.S.$25.0 million or more;

(7) failure by the Company or any of its Restricted Subsidiaries to pay one or more final judgments against any of them, aggregating U.S.$25.0 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 days or more;

(8) certain events of bankruptcy affecting the Company or any of its Significant Subsidiaries or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary;

(9) except as permitted by the Indenture, any Note Guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any of the Company, a Note Guarantor, or any Person acting on behalf of the Company or a Note Guarantor, denies or disaffirms such Note Guarantor's obligations under its Note Guarantee;

(10) the first priority Liens on the Collateral created (or purported to be created) by (i) the Existing Pledge Amendment Agreements and the Collateral Asset Sale Accounts Pledge Agreement are not perfected on or before the date that is two Business Days after the Issue Date, or (ii) the Existing Mortgages Amendment Agreement and the New Mortgage Agreements are not perfected on or before the date that is 60 Business Days after the Issue Date; or

(11) (a) the failure of the first priority Liens created (or purported to be created) with respect to the Collateral under any Security Documents, at any time, to be in full force and effect for any reason other than in accordance with their terms and the terms of the Indenture and the Security Documents, which failure continues for more than 60 days after notice thereof is provided to the Company by the Trustee, or (b) the assertion by the Company or any Note Guarantor, in any pleading in any court of competent jurisdiction, that any such Lien is invalid or unenforceable.

The Trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless written notice of such Default or Event of Default has been given to an authorized officer of the Trustee with direct responsibility for the administration of the Indenture by the Company or any Holder.

If an Event of Default (other than an Event of Default specified in clause (8) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding

Notes may declare all the unpaid principal of (and premium, if any, on) and accrued and unpaid interest on all the Notes to be immediately due and payable by notice in writing to the Company (and the Trustee if given by the Holders) specifying the Event of Default and that it is a "notice of acceleration," and the Trustee, at the written direction of the Holders of a majority in principal amount of the outstanding Notes, may instruct the Collateral Agent to enforce the Collateral in accordance with the Security Documents and the relevant instruction received from the Trustee, given at the written direction of the Holders of a majority in principal amount of the outstanding Notes. If an Event of Default specified in clause (8) above occurs with respect to the Company, then the unpaid principal of (and premium, if any, on) and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the outstanding Notes may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived, except non-payment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due and payable under the Indenture otherwise than by such declaration of acceleration, has been paid; and

(4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses (including the fees and expenses of its counsel), disbursements and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the outstanding Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No Holder of any Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

(1) such Holder gives to the Trustee written notice of a continuing Event of Default;

(2) Holders of at least 25% in principal amount of the then outstanding Notes make a written request to institute such proceeding or pursue such remedy;

(3) such Holders of the Notes provide to the Trustee satisfactory indemnity or security;

(4) the Trustee does not comply within 60 days; and

(5) during such 60 day period the Holders of a majority in principal amount of the outstanding Notes do not give the Trustee a written direction which is inconsistent with the request,

provided that a Holder of a Note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note, and any Holder may thereafter take any action to institute an involuntary bankruptcy or insolvency proceeding in respect of the Company or any of its Restricted Subsidiaries (including the Note Guarantors).

The Indenture provides that if a Default or Event of Default occurs, is continuing and written notification of such Default or Event Default has been given to a responsible officer of the Trustee, the Trustee must give to each Holder, with a copy to the Company, notice of the Default or Event of Default within 90 days after the date that the Trustee receives written notice thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

Holders of the Notes may not independently enforce the Collateral, except through the Collateral Agent (as instructed by the Trustee) as provided in the Security Documents and the Indenture.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes and the obligations of the Note Guarantors with respect to their Note Guarantees, and may terminate the Liens of the Security Documents on the Collateral ("*Legal Defeasance*"). Such Legal Defeasance means that the Company and the Note Guarantors will be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes and the Note Guarantees upon fulfillment of the conditions described below, except for:

(1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due from the trust described below;

(2) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;

(3) the rights, powers, trust, duties and immunities of the Trustee and the Company's and the Note Guarantors' obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Company and any Note Guarantor party to a Security Document may, at its option and at any time, elect to have its and the Note Guarantors' obligations released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture and the Company and any Note Guarantor party to a Security Document may terminate the Liens of the Security Documents on the Collateral ("*Covenant Defeasance*") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "—Events of Default" will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants expressed in a written certificate delivered to the Trustee, to pay the principal of, premium, if any, and interest (including Additional Interest) on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee to the effect that:

(a) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or

(b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall state that,

neither the Holders nor the beneficial owners of the Notes will recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance, and that the Holders and beneficial owners will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee to the effect that neither the Holders nor the beneficial owners of the Notes will recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance, and that the Holders and beneficial owners will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) in the case of Legal Defeasance or Covenant Defeasance, the Company has delivered to the Trustee:

(a) an Opinion of Counsel from counsel in Mexico from counsel reasonably acceptable to the Trustee to the effect that, based upon Mexican law then in effect, neither Holders nor beneficial owners will recognize income, gain or loss for Mexican tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of Legal Defeasance or Covenant Defeasance, as the case may be, and that Holders and beneficial owners will be subject to Mexican taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred, or

(b) a ruling directed to the Trustee received from the tax authorities of Mexico to the same effect as the Opinion of Counsel described in clause (a) above;

(5) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to paragraph (1) above (except any Default or Event of Default resulting from the failure to comply with "—Certain Covenants—Limitation on Indebtedness" as a result of the borrowing of the funds required to effect such deposit);

(6) the Trustee has received an Officers' Certificate stating that such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a Default or an Event of Default under the Indenture or a default or event of default under any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(7) the Company has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or any Subsidiaries of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(8) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with, such opinion to be subject to customary assumptions and exceptions; and

(9) the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes, as expressly provided for in the Indenture and the rights, powers,

trusts, duties and immunities of the Trustee and the Company's and the Note Guarantors' obligations in connection therewith) as to all outstanding Notes when:

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable by reason of the making of a notice of redemption or otherwise, and the Company has irrevocably deposited or caused to be deposited with the Trustee U.S. dollars, U.S. Government Obligations or a combination thereof, in such amount as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants delivered to the Trustee, to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of maturity or redemption, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;

(2) the Company or any Note Guarantor has paid all other sums payable under the Indenture, the Notes and the Note Guarantees by it; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Amendment, Supplement and Waiver

From time to time, the Company, the Note Guarantors and the Trustee without the consent of the Holders, may amend the Indenture, the Notes, the Security Documents for certain specified purposes, including curing ambiguities, defects or inconsistencies; adding Note Guarantees, collateral or covenants; to provide for the assumption of the Company's or a Note Guarantor's obligations under the Indenture, the Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Company's or such Note Guarantor's assets, as applicable, to the extent permitted under the Indenture; conforming the text of the Indenture, the Note Guarantees, the Notes or the Security Documents to any provision of this Description of the New Notes to the extent that such provision in this Description of the New Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees, the Notes or the Security Documents; and making other changes which do not adversely affect the rights of any of the Holders in any material respect (and the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel to such effect). Other modifications and amendments of the Indenture, the Note Guarantees, the Notes or the Security Documents may be made with the consent of the Holders of a majority in principal amount of the then outstanding Notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

(1) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor;

(4) make any Notes payable in money other than that stated in the Notes;

(5) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on the Notes on or after the due date thereof or to bring suit to

enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive past Defaults or Events of Default;

(6) amend, change or modify in any material respect the obligation of the Company to (i) make and consummate a Change of Control Offer in respect of a Change of Control that has occurred, (ii) make and consummate an Asset Sale Offer with respect to any Asset Sale that has occurred, or (iii) make and consummate an Collateral Asset Sale Offer at any time or from time to time pursuant to the Indenture (unless all Collateral has been released as permitted by the paragraph below);

(7) eliminate or modify in any manner a Note Guarantor's obligations with respect to its Note Guarantee which adversely affects the rights of Holders in any material respect, except as contemplated in the Indenture;

(8) make any changes in the provisions of the Indenture described under "Additional Interest" that adversely affects the rights of any Holder or amend the terms of the Notes in a way that would result in a loss of exemption from Taxes;

(9) make any change to the provision of the Indenture, the Notes or the Security Documents that adversely affects the ranking, priority or subordination of the Notes or the Note Guarantees;

(10) make any change to the provision described under "—Payments for Consent;" or

(11) make any change to the provision described under the first paragraph of "—Restricted Subsidiaries."

In addition, any amendment to, or waiver of, the provisions of the Indenture, the Note Guarantees, the Notes or any Security Document that has the effect of (a) releasing all or substantially all of the Collateral from the Liens securing the Notes, (b) providing for the sharing of all or substantially all of the Collateral subject to Liens securing the Notes for the benefit of the holders or creditors of any Indebtedness other than the Notes, or (c) changing or altering the priority of the Liens securing the Notes in any material portion of the Collateral in any which adversely affects the rights of Holders in any material respect, in each case, will require the consent of the Holders of at least 75% in aggregate principal amount of the Notes then outstanding, other than, in each case, as provided under the terms of the Indenture or the Security Documents.

Governing Law; Jurisdiction

The Indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York. The Security Documents will be governed by, and construed in accordance with, the law of Mexico and disputes thereunder will be resolved by Mexican courts. The parties to the Indenture shall consent and submit to the exclusive jurisdiction of the federal and state courts located in the City of New York, Borough of Manhattan, and waive their right to any other jurisdiction that may apply by virtue of their present or future domicile, or otherwise. The Company and the Note Guarantors have irrevocably appointed CT Corporation, with offices currently located at 28 Liberty Street, New York, New York 10005, as their agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture, the Notes or the Security Documents, and have granted to such agent for service of process a special power of attorney for litigation and collections (*pleitos y cobranzas*) before a Mexican notary public in the terms agreed in the Indenture, which power of attorney is irrevocable as it was granted in satisfaction of a condition precedent established in the Indenture.

Enforceability of Judgments

Since the Company is incorporated in Mexico and the Subsidiaries of the Company are incorporated in various non-U.S. jurisdictions, and all of their operating assets are outside of the United States, any judgment obtained in the United States against the Company or any Subsidiary of the Company, including judgments with respect to the payment of principal, premium, interest, Additional Interest and any purchase price with respect to the Notes, may not be collectable within the United States.

The Trustee

The Holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder has offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; provided, that if, following an Event of Default, it acquires any conflicting interest, it must either eliminate such conflict within 90 days or resign.

No Personal Liability

No incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company or any Note Guarantor will have any liability for any obligations of the Company or any Note Guarantor under the Notes (including the Note Guarantees) or the Indenture or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the United States federal securities laws.

Currency Indemnity

U.S. dollars are the sole currency of account and payment for all sums payable by the Company and the Note Guarantors under or in connection with the Indenture, the Notes and the Note Guarantees, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company or otherwise) by the Trustee or any Holder of a Note in respect of any sum expressed to be due to it from the Company or a Note Guarantor will only constitute a discharge of the Company and the relevant Note Guarantor, to the greatest extent permitted under applicable law, to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency, at a rate of exchange determined in accordance with normal banking procedures at which such recipient could purchase U.S. dollars with such other currency in New York, New York on the date of that receipt or recovery (or, if it is not a Business Day, the next Business Day). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient Holder under the Indenture, the Notes and the Note Guarantees or to the Trustee, as applicable, each of the Company and the Note Guarantors will, jointly and severally, indemnify such recipient Holder under any Note or the Trustee, as applicable, against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such recipient Holder under any Note or to the Trustee, as applicable, such recipient Holder under any Note or the Trustee, as applicable, will, by accepting a Note, and the Trustee, by execution of the Indenture, will be deemed to have agreed to repay such excess.

For the purposes of the preceding paragraph, it will be sufficient for the recipient Holder under any Note or the Trustee, as applicable, to certify in a satisfactory manner (which must include documentation from a U.S. nationally or internationally recognized banking institution) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities, to the extent permitted by law, constitute a separate and independent obligation from the other obligations of the Company and the Note Guarantors under the Indenture, the Notes and the Note Guarantee, will give rise to a separate and independent cause of action against the Company and the Note Guarantors, will apply irrespective of any indulgence granted by any Holder of a Note from time to time or by the Trustee and will continue in full force and

effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Indenture, any Note or any Note Guarantee. In any event, the Company and the Note Guarantors will indemnify the recipient against the reasonable and customary cost of making any such purchase.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

"*2022 Notes*" means the Company's 8.875% Senior Notes due 2022 issued by the Company pursuant to an indenture, dated as of April 11, 2017 between the Company, the guarantors party thereto, and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent.

"*Acquired Indebtedness*" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

"*Acquired Material Assets*" means any asset, related group of assets, business, business unit or division (other than any Excluded Assets) of the Company or any of its Restricted Subsidiaries which (1) as of the last date of the most recent Four Quarter Period individually represents more than 2% of the Consolidated Assets as of such date, or (2) for the most recent Four Quarter Period individually represents more than 2% of the Consolidated Sales for such Four Quarter Period. For the purposes of this definition, "Consolidated Assets" and "Consolidated Sales" will be calculated after giving effect on a pro forma basis as determined in the good faith judgment of the Company's chief financial or accounting officer for the period of such calculation to any acquisitions or dispositions that have been made by the Company and its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Subsidiaries acquired by the Company and its Restricted Subsidiaries occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such acquisition or disposition occurred on the first day of the Four Quarter Period.

"*Additional Assets*" means:

(1) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business;

(2) all or substantially all of the assets of a Permitted Business; or

(3) Capital Stock of a Person engaged in a Permitted Business that is or will become, upon purchase, a Restricted Subsidiary,

in each case acquired from a Person other than the Company and its Restricted Subsidiaries.

"*Additional Interest*" has the meaning set forth under "—Additional Interest."

"*Affiliate*" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Affiliate Transaction*" has the meaning set forth under "—Certain Covenants—Limitation on Transactions with Affiliates."

"*Asset Sale*" means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer, including a Sale and Leaseback Transaction (each, a "*disposition*") by the Company or any Restricted Subsidiary of:

(a) any Capital Stock other than Capital Stock of the Company; or

(b) any property or assets (other than cash, Cash Equivalents or Capital Stock of the Company) of the Company or any Restricted Subsidiary.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

(1) a transaction permitted under "—Certain Covenants—Merger, Consolidation and Sale of Assets;"

(2) a disposition of inventory or damaged, obsolete or worn-out assets in the ordinary course of business;

(3) the sale or discount of accounts receivable arising in the ordinary course of business in connection with the compromise or collection thereof (including in any factoring transactions);

(4) sales, transfers and other dispositions of Investments in joint ventures to the extent required by customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding arrangements;

(5) the licensing or sublicensing of intellectual property or other general intangibles in the ordinary course of business;

(6) dispositions of assets in any fiscal year with a Fair Market Value not to exceed U.S.$5.0 million in any individual transaction or series of related transactions or U.S.$10.0 million in the aggregate;

(7) for purposes of "—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock" only, the making of a Permitted Investment or Restricted Payment permitted under "—Certain Covenants—Limitation on Restricted Payments;"

(8) a disposition to the Company or a Restricted Subsidiary (other than a Receivables Subsidiary), including a Person that is or will become a Restricted Subsidiary immediately after the disposition;

(9) sales of accounts receivable and related assets or an interest therein of the type specified in the definition of Qualified Receivables Transaction to a Receivables Subsidiary;

(10) the creation of a Lien permitted under the Indenture or the Security Documents;

(11) any Collateral Asset Sale (which shall be governed by the provisions described under "—Collateral—Collateral Asset Sales"); and

(12) any Kaltex Fibers Business Sale (which shall be governed by the provisions described under "—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock—Kaltex Fibers Business Sales").

"*Asset Sale Offer*" has the meaning set forth under "—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock."

"*Attributable Indebtedness*" in respect of a Sale and Leaseback Transaction means, as of the time of determination, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for such lease has been extended).

"*Board Observer*" means an individual who is an observer to (but not a member of) the Kaltex Board.

"*Board of Directors*" means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof.

"*Board Resolution*" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"*Business Day*" means a day other than a Saturday, Sunday or other day on which commercial banking institutions are authorized or required by law to close in New York City or Mexico City.

"*Capital Stock*" means:

(1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;

(2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and

(3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

"*Capitalized Lease Obligations*" means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capitalized lease obligations under IFRS. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with IFRS.

"*Cash Equivalents*" means:

(1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, maturing within one year from the date of acquisition thereof;

(2) *Cetes or Bonos de Desarrollo del Gobierno Federal* or other similar securities issued by the Mexican government and maturing not more than 365 days after the acquisition thereof, and debt instruments issued by the Mexican government which are denominated and payable in U.S. dollars and maturing not later than one year after the acquisition thereof;

(3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Moody's or S&P;

(4) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's;

(5) demand deposits, certificates of deposit, time deposits or bankers' acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, or (b) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than U.S.$500.0 million (or the equivalent);

(6) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (4) above;

(7) investments in money market funds which invest substantially all of their assets in securities of the types described in clauses (1) through (6) above; and

(8) investments in demand deposits, certificates of deposit, bank promissory notes and bankers' acceptances denominated in Mexican pesos, maturing not more than 365 days after the acquisition thereof and issued or Guaranteed by any one of the five largest banks (based on assets as of the immediately preceding December 31) organized under the laws of Mexico and which are not under intervention or controlled by the *Fondo Bancario de Proteccion al Ahorro* or any successor thereto.

"*Cash Interest*" has the meaning set forth under "—Principal, Maturity and Interest."

"*Change of Control*" means the occurrence of one or more of the following events:

(1) any Person or Group other than the Permitted Holders is or becomes the "beneficial owner," directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of the Company (including a Successor Company, if applicable); or

(2) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction "beneficially owned" the outstanding Voting Stock of the Company are, by virtue of such prior ownership, or Permitted Holders are, the "beneficial owners" in the aggregate of a majority of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect Subsidiary of another Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture.

For purposes of this definition:

(a) beneficial owner will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act;

(b) "Person" and "Group" will have the meanings for "person" and "group" as used in Sections 13(d)(1) and 14(d) of the Exchange Act, except that any Person or Group will be deemed to have beneficial ownership of all securities that such Person or Group or has the non-contingent (other than contingencies solely related to passage of time) right to acquire by conversion or exercise of other securities; and

(c) the Permitted Holders or any other Person or Group will be deemed to beneficially own any Voting Stock of a Person held by any other Person (the "*parent entity*") so long as the Permitted Holders or such other Person or Group, as the case may be, beneficially own, directly or indirectly, in the aggregate at least 50% of the voting power of the Voting Stock of the parent entity and no other Person or Group beneficially owns an equal or a greater amount of the Voting Stock of the parent entity.

"*Change of Control Payment*" has the meaning set forth under "—Change of Control."

"*Change of Control Payment Date*" has the meaning set forth under "—Change of Control."

"*CNBV*" means the Mexican National Banking and Securities Commission, or *Comisión Nacional Bancaria y de Valores.*

"*Collateral*" means all assets, properties, rights or revenues that, in accordance with the terms of the Security Documents, are intended to be subject to any Lien in favor of the Collateral Agent, acting on behalf of and for the benefit of the Secured Parties (or any sub-agent or other Person acting for or on behalf of the Secured Parties), which on the Issue Date shall comprise (i) the Tlautla Land and Buildings, (ii) the San Juan Land and Buildings, (iii) the Tlaxinacalpan Land and Buildings, (iv) the Tlautla Machinery, (v) the San Juan Machinery, (vi) the Tlaxinacalpan Machinery, and (vii) the Collateral Asset Sale Accounts.

"*Collateral Agent*" means the collateral agent designated under the Indenture, which initially shall be Banco Monex, S.A. Institución de Banca Múltiple, Monex Grupo Financiero until a successor replaces it in accordance with the terms of the Indenture and, thereafter, means the successor.

"*Collateral Asset Sale Accounts*" means the Mexican peso bank account and the U.S. dollar bank account, each held at the Collateral Agent in Mexico established by, and in the name of, the Collateral Agent.

"*Commodity Agreement*" means any commodity or raw material futures contract, commodity or raw materials option, or any other agreement designed to protect against or manage exposure to fluctuations in commodity or raw materials prices.

"*Common Stock*" of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

"*Concurrent Loan Facility*" means the senior secured loan agreement dated November 3, 2022 by and among (i) Banco Nacional de Comercio Exterior, S.N.C., Institución de Banca de Desarrollo, as lender, (ii) Manufacturas Kaltex, S.A. de C.V., as borrower, (iii) Inmobiliaria los Mejía, S.A. de C.V., Inmobiliaria Barrientos, S.A. de C.V., Inmobiliaria Emilio Castelar, S.A. de C.V., Inmobiliaria Mago, S.A. de C.V., Inmuebles Tochtli-Centeotl, S.A. de C.V., and Kaltex Inmobiliaria, S.A. de C.V., as collateral guarantors (*garantes hipotecarios*), and (iv) the Company, as joint obligor (*obligado solidario*), including any guarantees, collateral documents, instruments and agreements executed in connection therewith, in each case as in effect on the Issue Date (excluding any amendment, extension, renewal, restatement, supplement, replacement, refinancing, restructuring or modification thereof); *provided* that notwithstanding any other provision of the Indenture, the maximum principal amount of Indebtedness under the Concurrent Loan Facility shall not at any time exceed U.S.$100.0 million (or the equivalent in Mexican pesos).

"*Consolidated Assets*" means with respect to the Company and its Restricted Subsidiaries, as of any date of determination, the total consolidated assets of the Company and its Restricted Subsidiaries less Intangible Assets of the Company and its Restricted Subsidiaries, in each case, as set forth on the consolidated balance sheet of the Company pursuant to IFRS as of the most recently ended fiscal quarter of the Company.

"*Consolidated EBITDA*" means, for any Person for any period, Consolidated Net Income for such Person for such period, plus the following, without duplication, to the extent deducted in calculating such Consolidated Net Income:

(1) Consolidated Income Tax Expense for such Person for such period;

(2) Consolidated Interest Expense for such Person for such period;

(3) consolidated depreciation and amortization for such period;

(4) any restructuring charges or reserves, including any one-time costs incurred in connection with acquisitions after the Issue Date and costs related to the closure and/or consolidation of facilities; and

(5) any other non-cash charges of such Person and its consolidated Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period),

less (a) all non-cash credits and gains increasing Consolidated Net Income for such Person for such period, (b) all cash payments made by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period, and (c) any restructuring gains, including any one-time gains incurred in connection with dispositions after the Issue Date.

Notwithstanding the preceding, any of the items described in clauses (1) through (5) above for any Subsidiary (Restricted Subsidiary in the case of the Company) will be added to or deducted from Consolidated Net Income to compute Consolidated EBITDA for any period only to the extent (and in the same proportion, including

by reason of minority interests) that the net income of such Person was included in calculating Consolidated Net Income for such period.

"*Consolidated Income Tax Expense*" means, with respect to any Person for any period, the provision for any income taxes payable by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period as determined on a consolidated basis in accordance with IFRS.

"*Consolidated Interest Expense*" means, with respect to any Person for any period, the sum (without duplication) determined on a consolidated basis in accordance with IFRS of:

(1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period determined on a consolidated basis in accordance with IFRS, including, without limitation, the following (whether or not interest expense in accordance with IFRS):

   (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) in the form of additional Indebtedness;

   (b) any amortization of deferred financing costs, provided, however, that any amortization of deferred financing costs incurred in connection with the exchange offer in respect of the 2022 Notes made pursuant to the Exchange Offer Memorandum shall not be included in Consolidated Interest Expense;

   (c) the net costs under Hedging Obligations designed to protect against fluctuations in interest rates or foreign exchange rates and not for speculative purposes (including amortization of fees);

   (d) all capitalized interest;

   (e) the interest portion of any deferred payment obligation;

   (f) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers' acceptances; and

   (g) any interest expense paid by such Person in respect of Indebtedness of another Person that is Guaranteed by such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company) or secured by a Lien on the assets of such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company);

(2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period; and

(3) Receivables Fees.

"*Consolidated Net Income*" means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries for such period on a consolidated basis (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person), determined in accordance with IFRS; *provided*, that there will be excluded therefrom (without duplication) to the extent reflected in such aggregate net income (loss):

(1) any net after-tax gain or loss realized upon the sale or other disposition of any asset that is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any Capital Stock of any Person;

(2) net after-tax items classified as extraordinary gains or losses;

(3) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such Subsidiary;

(4) the net income of any Person that is not a Restricted Subsidiary, except to the extent of the lesser of (x) the dividends or other distributions actually paid in cash to the Company or any of its Restricted Subsidiaries by such Person during such period, and (y) the Company's or any of its Restricted Subsidiaries' pro rata share of such Person's net income earned during such period (and the net loss of such Person for such period will be included in determining such Consolidated Net Income only to the extent such loss has been funded with cash from the Company or a Restricted Subsidiary);

(5) any gain (or loss) from foreign exchange translation or change in net monetary position;

(6) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time after the Issue Date;

(7) non-cash compensation charges or gains;

(8) any non-cash impairment or fair value charges or gains relating to goodwill and other intangibles and long lived assets including property, plant and equipment;

(9) any one-time net after-tax income or loss from discontinued operations and any one-time net after-tax gains or losses on disposal of disposed, abandoned or discontinued operations; and

(10) the cumulative effect of changes in accounting principles.

"*Consolidated Sales*" means the consolidated total revenues of the Company and its Restricted Subsidiaries for the applicable period determined in accordance with IFRS.

"*Consolidated Total Indebtedness*" means, for any Person as of any date of determination, an amount equal to the aggregate amount (without duplication) of all Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) outstanding at such time.

"*Consolidated Total Indebtedness to Consolidated EBITDA Ratio*" means, for any Person as of any date of determination, the ratio of the aggregate amount of Consolidated Total Indebtedness for such Person as of such date to Consolidated EBITDA of such Person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination (the "*Four Quarter Period*"). For purposes of this definition, "Consolidated Total Indebtedness" and "Consolidated EBITDA" will be calculated after giving effect on a pro forma basis as determined in the good faith judgment of the Company's chief financial or accounting officer for the period of such calculation to:

(1) the Incurrence, repayment or redemption of any Indebtedness of such Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), and the application of the proceeds thereof, including the Incurrence of any Indebtedness, and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such Four Quarter Period or at any time subsequent to the last day of such Four Quarter Period and on or prior to such date of determination, to the extent, in the case of an Incurrence, such Indebtedness is outstanding on the date of determination, as if such Incurrence, and the application of the proceeds thereof, repayment or redemption occurred on the first day of such Four Quarter Period; and

(2) acquisitions or dispositions that have been made by the specified Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), including through mergers or consolidations, or any Person or any of its Subsidiaries acquired by the specified Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), and including any related financing transactions and including increases or decreases in ownership of Subsidiaries (Restricted Subsidiaries, in the case

of the Company), occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such acquisition or disposition occurred on the first day of the Four Quarter Period.

Furthermore, for purposes of making the computation referred to above, the amount of Indebtedness under a revolving credit facility will be computed on a pro forma basis, giving effect to any borrowings related to any transaction referred to in clause (2) above, based upon the average daily balance of such Indebtedness during the applicable Four Quarter Period or, if such facility was created after the end of such Four Quarter Period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation.

"*Covenant Defeasance*" has the meaning set forth under "—Legal Defeasance and Covenant Defeasance."

"*Currency Agreement*" means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

"*Default*" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"*Disqualified Capital Stock*" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof (except for Capital Stock that are required to be mandatorily redeemed pursuant to Articles 206 or 220 of the Mexican Corporations Law), in any case, on or prior to the final maturity date of the Notes. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Capital Stock solely because the holders of the Capital Stock have the right to require the Company to repurchase such Capital Stock upon the occurrence of a "change of control" or an "asset sale" shall not constitute Disqualified Capital Stock if the "change of control" or "asset sale" provisions applicable to such Capital Stock are not more favorable in the aggregate to the holders of such Capital Stock than the provisions of the Indenture. The amount of Disqualified Capital Stock deemed to be outstanding at any time for purposes of the Indenture will be the maximum amount that the Company and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Capital Stock, exclusive of accrued dividends.

"*Energy Generation Plant*" means the energy generation plant, equipment and machinery located in Altamira, Tamaulipas, Mexico.

"*Energy Generation Subsidiaries*" each of the Subsidiaries of the Company that, directly or indirectly, from time to time, own or operate all or any part of the Energy Generation Plant.

"*Energy Generation Subsidiaries*" has the meaning set forth under "—Restricted Subsidiaries."

"*Events of Default*" has the meaning set forth under "—Events of Default."

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"*Excluded Assets*" means (a) accounts receivable, inventory and other current assets as determined in accordance with IFRS, and (b) assets to which the granting or perfecting of a Lien over such assets would violate any applicable law or the rights of a Person (except where such Person is the Company, any of its Restricted Subsidiaries, any of their respective Affiliates or any Insider) to such assets, but only for so long as such grant or perfection would violate any such applicable law or the rights of a Person to such assets, and *provided* that the rights of such Person were not created in connection with, or in anticipation or contemplation of the acquisition by the Company or any of its Restricted Subsidiaries.

"*Fair Market Value*" means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided*, that the Fair Market Value of any such asset or assets will be determined conclusively by the management of the Company acting in good faith (except as otherwise provided in the Indenture).

"*Four Quarter Period*" has the meaning set forth in the definition of Consolidated Total Indebtedness to Consolidated EBITDA Ratio" above.

"*Global Note*" means any Note issued in fully registered certificated form to DTC, its nominee, or their respective successors, as depositary for the beneficial owners thereof.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise; or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

provided that "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. "Guarantee" used as a verb has a corresponding meaning.

"*Hedging Obligations*" means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

"*Holder*" means, with respect to any Note, the Person identified in the register maintained by the Registrar.

"*IFRS*" means International Financial Reporting Standards issued by the International Accounting Standards Board, as in effect from time to time.

"*Incur*" means, with respect to any Indebtedness, Lien or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), grant, assume, Guarantee or otherwise become liable (and "Incurrence," "Incurred" and "Incurring" will have meanings correlative to the preceding).

"*Indebtedness*" means with respect to any Person, without duplication:

(1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;

(2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations and Attributable Indebtedness under Sale and Leaseback Transactions of such Person;

(4) all conditional sale obligations and all obligations under any title retention agreement of such Person;

(5) all obligations of such Person to pay the deferred and unpaid purchase price of property, goods or services (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted) ("*Supplier Financing*");

(6) all letters of credit, banker's acceptances or similar credit transactions, including reimbursement obligations in respect thereof, excluding obligations in respect of trade letters of credit or bankers' acceptances issued in respect of trade payables to the extent not drawn upon or presented, or, if drawn upon or presented, the resulting obligation of the Person is paid within 20 Business Days following receipt by such Person of a demand for reimbursement;

(7) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (6) above and clauses (9), (10), and (12) below to the extent so Guaranteed;

(8) all Indebtedness of any other Person of the type referred to in clauses (1) through (7) which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;

(9) all obligations under Hedging Obligations of such Person (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);

(10) all liabilities recorded on the balance sheet of such Person in connection with a sale or other disposition of accounts receivable and related assets;

(11) all Disqualified Capital Stock issued by such Person; and

(12) to the extent not otherwise included in the foregoing, the Receivables Transaction Amount outstanding relating to a Qualified Receivables Transaction.

Notwithstanding the foregoing clauses (1) through (12) above, the term "Indebtedness" will not include any outstanding installment of the purchase price (contingent or otherwise) of any Subsidiary or other asset acquired by the Company or one of its Subsidiaries or purchase price adjustment for which a corresponding deposit has been recorded on the consolidated balance sheet of the Company.

"*Indemnification Agreement*" means an agreement in form and substance reasonably satisfactory to the Board Observer, pursuant to which, to the fullest extent permitted by applicable law, (i) the Company agrees to, and agrees to procure that its Subsidiaries shall, indemnify, hold harmless, exonerate, release and discharge the Board Observer against, from and in connection with, any claims, suits, proceedings, expenses or liabilities relating to or in connection with such individual being a Board Observer, and (ii) the Company agrees not to, and agrees to procure that its Subsidiaries and its and their respective Affiliates and Insiders shall not, bring against the Board Observer (or seek to join the Board Observer to) any claim, suit, proceeding or other process relating to or in connection with such individual being a Board Observer.

"*Independent Financial Advisor*" means an accounting firm, appraisal firm, investment banking firm or consultant of internationally recognized standing that is, in the judgment of the Kaltex Board, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

"*Insider*" means any shareholder, holder of Capital Stock, director, officer or employee of the Company or of its Restricted Subsidiaries, or any family member of such Person, or any Person that is an Affiliate of any of the foregoing.

"*Intangible Assets*" means with respect to any Person all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangibles on the consolidated balance sheet of such Person prepared in accordance with IFRS.

"*Interest Rate Agreement*" of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

"*Investment*" means, with respect to any Person, any:

(1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person (other than advances or extensions of credit to customers in the ordinary course of business),

(2) capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other Person, or

(3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by any other Person.

"*Investment*" will exclude accounts receivable, trade credits, advances to customers, commissions, travel or similar advances to employees or consultants or deposits or prepaid expenses arising in the ordinary course of business. "Invest," "Investing" and "Invested" will have corresponding meanings.

If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition. The acquisition by the Company or any Restricted Subsidiary of the Company of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person, without duplication. Except as otherwise provided in the Indenture, the amount of an Investment will be determined at the time the Investment is made without giving effect to subsequent changes in value.

"*Issue Date*" means the first date of issuance of Notes under the Indenture, which will be the Settlement Date.

"*Kaltex Board*" means the board of directors of the Company, which term shall include, for the purposes of the covenant described under "—Certain Covenants—Board Observer" only, each committee of the board of directors of the Company from time to time.

"*Kaltex Fibers Business*" means the fibers line of business that is conducted by the Company or any of its Restricted Subsidiaries from time to time (including, without limitation, the business conducted by Kaltex Fibers, S.A. de C.V.).

"*Kaltex Fibers Subsidiaries*" each of the Subsidiaries of the Company that, directly or indirectly, from time to time, own or operate all or any part of the Kaltex Fibers Business.

"*Legal Defeasance*" has the meaning set forth under "—Legal Defeasance and Covenant Defeasance."

"*Lien*" means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that, the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder.

"*Meeting*" has the meaning set forth under "—Certain Covenants—Board Observer."

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Moveable Assets Registry*" means Sole Registry of Liens over Movable Assets (*Registro Único de Garantías Mobiliarias*).

"*Net Cash Proceeds*" means, with respect to any Asset Sale, any Collateral Asset Sale or any Kaltex Fibers Business Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, Collateral Asset Sale or Kaltex Fibers Business Sale (in each case subject to the provisions of the Indenture in relation to the form of consideration permitted in connection with such Asset Sale, Collateral Asset Sale or Kaltex Fibers Business Sale), net of:

(1) out-of-pocket expenses and fees relating to such Asset Sale, Collateral Asset Sale or Kaltex Fibers Business Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) taxes paid or payable in respect of such Asset Sale, Collateral Asset Sale or Kaltex Fibers Business Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;

(3) repayment of Indebtedness permitted under the Indenture that is required to be repaid in connection with such Asset Sale; and

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

"*Note Guarantee*" means any guarantee of the Company's Obligations under the Notes and the Indenture provided by a Restricted Subsidiary pursuant to the Indenture.

"*Note Guarantor*" means any Restricted Subsidiary which provides a Note Guarantee pursuant to the Indenture until such time as its Note Guarantee is released in accordance with the Indenture.

"Notes" means the 14.500% Senior Secured Notes due 2025 issued by the Company under the Indenture. For all purposes of the Indenture, the term "*Notes*" shall also include any PIK Notes that may be issued pursuant to the provisions of the Notes and the Indenture.

"*Obligations*" means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), premium, Additional Interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing such Indebtedness, including in the case of the Notes and the Note Guarantees, the Indenture.

"*Officer*" means, when used in connection with any action to be taken by the Company, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the Controller or the Secretary of the Company.

"*Officers' Certificate*" means, when used in connection with any action to be taken by the Company, a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company and delivered to the Trustee.

"*Opinion of Counsel*" means a written opinion of counsel to the Company, who may not be a director, officer, employee or internal counsel of the Company or any of its Restricted Subsidiaries, and who shall be reasonably acceptable to the Trustee.

"*Permitted Business*" means the business or businesses conducted by the Company and its Restricted Subsidiaries as of the Issue Date and any business ancillary or complementary thereto.

"*Permitted Holders*" means (i) the members of the Kalach family, (ii) a parent, brother or sister of any individual referenced in clause (i), (iii) the spouse or a former spouse of any individual referenced in clause (i) or (ii), (iv) the lineal descendants of any person referenced in clauses (i) through (iii) and the spouse or a former spouse

of any such lineal descendant, (v) the estate, heir or any guardian, custodian or other legal representative of any individual referenced in clauses (i) through (iv), (vi) any trust or other investment vehicle established principally for the benefit of any one or more of the individuals (or their respective heirs) referenced in clauses (i) through (v), and (vii) any Person in which a majority of the equity interests are owned, directly or indirectly, by any one or more of the Persons referenced in clauses (i) through (vi).

"*Permitted Indebtedness*" has the meaning set forth under clause (2) of "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness."

"*Permitted Investments*" means:

(1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary (other than a Receivables Subsidiary) or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary (other than a Receivables Subsidiary);

(2) Investments in the Capital Stock of a Restricted Subsidiary (other than Investments acquired from an Affiliate of the Company (other than a Restricted Subsidiary));

(3) Investments by any Restricted Subsidiary in the Company;

(4) Investments in cash and Cash Equivalents;

(5) any Investment existing on the Issue Date, or any Investment consisting of an extension, modification or renewal of any Investment in existence as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);

(6) Investments permitted pursuant to clause (2)(b) or (e) of "—Certain Covenants—Limitation on Transactions with Affiliates;"

(7) Investments to the extent made with Capital Stock of the Company (other than Disqualified Capital Stock);

(8) Investments in the Notes;

(9) Investments received as a result of the bankruptcy or reorganization of any Person or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;

(10) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under "—Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock;"

(11) Investments in the form of Hedging Obligations permitted under clause (2)(d) of "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;"

(12) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business consistent with past practices and payable or dischargeable in accordance with customary trade terms; provided that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(13) payroll, travel, entertainment, relocation and similar advances to employees, directors, officers or consultants that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(14) loans or advances to, or Guarantees of loans or advances made to, employees, directors, officers or consultants made in the ordinary course of business consistent with past practices of the Company or any Restricted Subsidiary of the Company in an aggregate principal amount not to exceed U.S.$2.0 million at any one time outstanding;

(15) Guarantees of Indebtedness permitted under "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness;"

(16) Investments in any joint venture of the Company or its Subsidiaries to the extent such Investment (x) is made in proportion to the direct or indirect ownership percentage of the Company and its Subsidiaries in such joint venture and each third party owner of such joint venture invests proportionately in such joint venture (except to the extent a disproportionate Investment results in a dilution of a third party's direct or indirect ownership percentage in such joint venture and a commensurate increase in the Company's or its Subsidiaries' or (without dilution of the Company) another third party's direct or indirect ownership percentage in such joint venture), or (y) if such joint venture is subject to mandatory dividend requirements, is in the form of an equity Investment, and in each case not to exceed an aggregate of U.S.$10.0 million;

(17) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;

(18) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(19) loans to a supplier, potential supplier or other Person involved directly in the business of the Company and its Restricted Subsidiaries, in an aggregate amount outstanding at any one time not to exceed U.S.$5.0 million (or the equivalent in other currencies);

(20) minority Investments, in an aggregate amount not to exceed U.S.$10.0 million (or the equivalent in other currencies);

(21) any Investment by the Company or a Restricted Subsidiary in a Receivables Subsidiary or any Investment by a Receivables Subsidiary in any other Person, in each case, in connection with a Qualified Receivables Transaction; *provided* that the Investment in any Person is in the form of a Purchase Money Note or an equity interest or interest in Receivables and related assets generated by the Company or a Restricted Subsidiary and transferred to any Person in connection with a Qualified Receivables Transaction or any Person owning those accounts receivable; and

(22) Investments in a Person engaged in a Permitted Business not to exceed the greater of U.S.$50.0 million and 5.0% of Consolidated Assets at any one time outstanding.

"*Permitted Jurisdiction*" has the meaning set forth under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets."

"*Permitted Liens*" means any of the following:

(1) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law Incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as required by IFRS have been made in respect thereof;

(2) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in

connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations or deposits for the payment of rent (exclusive of obligations for the payment of borrowed money);

(3) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(4) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(5) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and set-off;

(6) Liens securing Hedging Obligations that are otherwise permitted under the Indenture;

(7) Liens existing on the Issue Date and Liens to secure any Refinancing Indebtedness Incurred in accordance with "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness" which is Incurred to Refinance any Indebtedness Incurred in accordance with "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness" that has been secured by a Lien permitted under the covenant described under "—Certain Covenants—Limitation on Liens;" *provided*, that such new Liens:

(a) are no less favorable to the Holders of Notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced, and

(b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;

(8) Liens attaching solely to cash earnest money deposits in connection with any letter of intent or purchase agreement entered into it in connection with the acquisition of Capital Stock in, all or substantially all the assets of, or all or substantially all the assets constituting a division or line of business of, a Person;

(9) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; provided that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(10) judgment Liens or deposits to secure judgments, in each case not giving rise to an Event of Default, so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;

(11) Liens granted after the Issue Date on any assets or Capital Stock of the Company or its Restricted Subsidiaries created in favor of the Holders of the Notes;

(12) licenses or leases or subleases in the ordinary course of business and that do not materially interfere with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries;

(13) Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution in the ordinary course of business; provided, however, that such

deposit account is not a dedicated cash collateral account and is not intended by the Company or any Restricted Subsidiary to provide collateral to such depository institution;

(14) easements, rights of way zoning and similar restrictions, reservations, restrictions or encumbrances in respect of real property or title defects that were not Incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties (as such properties are used by the Company or its Restricted Subsidiaries) or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;

(15) Liens on property at the time the Company or any of the Restricted Subsidiaries acquires such property, including any acquisition by means of a merger or consolidation with or into the Company or a Restricted Subsidiary of such Person, provided such Liens were not created in contemplation thereof;

(16) Liens on Capital Stock of the Unrestricted Subsidiaries that secure Indebtedness or other obligations of any such Unrestricted Subsidiary;

(17) Liens on assets transferred to a Receivables Subsidiary or on assets of a Receivables Subsidiary, in either case Incurred in connection with a Qualified Receivables Transaction;

(18) Liens in respect of accounts receivable and inventory securing Working Capital Indebtedness permitted to be Incurred and outstanding under the Indenture; and

(19) Liens securing Productivity and Capital Expenditure Indebtedness permitted to be Incurred and outstanding under the Indenture; *provided* that such Liens do not extend to any property or assets other than the property or assets financed by such Productivity and Capital Expenditure Indebtedness.

The Permitted Liens referred to in paragraphs (18) and (19) above shall not permit Liens securing Indebtedness under the Concurrent Loan Facility.

"*Person*" means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"*PIK Interest*" means a portion of the interest on the Notes due on an interest payment date, which is paid "in kind," at the Company's election, by issuing PIK Notes (which includes an increase in the principal amount of Notes represented by Global Notes) as provided for in the Notes and the Indenture.

"*PIK Notes*" means any Notes issued pursuant to a PIK Payment. Any reference to "outstanding" Notes shall, unless the context otherwise requires, be deemed to include outstanding PIK Notes. Any reference to "principal amount" or "principal" of the Notes shall, unless the context otherwise requires, be deemed to include any increase in the principal amount of the Notes as a result of a PIK Payment.

"*PIK Notice*" has the meaning set forth under "—Principal, Maturity and Interest."

"*PIK Payment*" means, in respect of an applicable interest payment date, (i) increasing the outstanding principal amount of the Notes in the amount of any PIK Interest and/or (ii) issuing PIK Notes under the Indenture in an amount of any PIK Interest.·

"*Post-Petition Interest*" means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

"*Preferred Stock*" of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

"*Productivity and Capital Expenditure Indebtedness*" has the meaning set forth under "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness."

"*Public Registry of Property*" means the public registry of property of the jurisdiction within Mexico where the relevant Collateral is located.

"*Purchase Money Note*" means a promissory note evidencing a line of credit, or evidencing other Indebtedness owed to the Company or any Restricted Subsidiary in connection with a Qualified Receivables Transaction, which note shall be repaid from cash available to the maker of such note, other than amounts required to be established as reserves, amounts paid to investors in respect of interest, principal and other amounts owing to such investors and amounts paid in connection with the purchase of newly generated accounts receivable.

"*Qualified Capital Stock*" means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

"*Qualified Receivables Transaction*" means any transaction or series of transactions that may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Company or any Restricted Subsidiary) and (b) any other person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any Receivable (whether existing on the Issue Date or arising after the Issue Date) of the Company or any Restricted Subsidiary and any asset related thereto, including, without limitation, all collateral securing such Receivables, all contracts and all guarantees or other obligations in respect of the accounts receivable, proceeds of such Receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving Receivables.

"*Receivable*" means a right to receive payment arising from a sale or lease of goods or the performance of services by a Person in the ordinary course of business pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods or services under terms that permit the purchase of such goods and services on credit, including, without limitation, an account receivable.

"*Receivables Fees*" means any fees or interest paid to purchasers or lenders providing the financing in connection with a Qualified Receivables Transaction, factoring agreement or other similar agreement, including any such amounts paid by discounting the face amount of Receivables or participations therein transferred in connection with a Qualified Receivables Transaction, factoring agreement or other similar arrangement, regardless of whether any such transaction is structured as on-balance sheet or off-balance sheet or through a Restricted Subsidiary.

"*Receivables Subsidiary*" means a Wholly-Owned Subsidiary of the Company which engages in no activities other than in connection with the financing of accounts receivable in the ordinary course of business and which is designated by the Company as a Receivables Subsidiary:

(1) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (a) is guaranteed by the Company or any other Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (b) is recourse to or obligates the Company or any other Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (c) subjects any property or asset of the Company or any other Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Company nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Receivables Transaction) other than on terms no less favorable to the Company or such other Restricted Subsidiary than those that might be obtained at the time from persons that are not

Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing accounts receivable;

(3) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results; and

(4) any financings of Receivables on terms no less favorable to the Company or such Wholly-Owned Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company.

"*Receivables Transaction Amount*" means the amount of obligations outstanding under the legal documents entered into as part of such Qualified Receivables Transaction on any date of determination that would be characterized as principal if such Qualified Receivables Transaction were structured as a secured lending transaction rather than as a purchase.

"*Refinance*" means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, repay, redeem, replace, defease or refund such Indebtedness in whole or in part. "Refinanced" and "Refinancing" will have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance, any other Indebtedness of the Company or a Restricted Subsidiary (including Indebtedness that Refinances Refinancing Indebtedness) so long as:

(1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or accreted value as of such date, if applicable) of the Indebtedness being Refinanced (plus the amount of any interest or premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of out-of-pocket expenses incurred by the Company in connection with such Refinancing);

(2) such new Indebtedness has:

(a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; and

(b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced;

(3) if the Indebtedness being Refinanced is:

(a) Indebtedness of the Company or a Note Guarantor, then such Refinancing Indebtedness will be Indebtedness of the Company or a Note Guarantor; or

(b) Subordinated Indebtedness, then such Refinancing Indebtedness will be subordinated to the Notes or the relevant Note Guarantee, if applicable, at least to the same extent and in the same manner as the Indebtedness being Refinanced.

"*Replacement Collateral Assets*" has the meaning set forth under "—Collateral—Collateral Asset Sales—Collateral Asset Sale Offers."

"*Restricted Payment*" has the meaning set forth under "—Certain Covenants—Limitation on Restricted Payments."

"*Restricted Subsidiary*" means any Subsidiary (including, without limitation, a Receivables Subsidiary) of the Company other than the Unrestricted Subsidiaries.

"*S&P*" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc. and its successors.

"*Sale and Leaseback Transaction*" means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or any Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such property.

"*Secured Parties*" means the Trustee, the Holders of the Notes and the Collateral Agent.

"*Security Documents*" means, collectively:

(i) the amendment and restatement agreement, executed before a Mexican notary public, dated as of the Issue Date to the mortgage agreement dated September 4, 2017, as evidenced in public deed number 202,442, between Manufacturas Kaltex, S.A. de C.V. and the Collateral Agent, with respect to the Tlautla Land and Buildings (the "*Existing Mortgages Amendment Agreement*");

(ii) (a) the amendment and restatement agreement, executed before a Mexican notary public, dated as of the Issue Date to the non-possessory pledge agreement dated September 4, 2017, as evidenced in the public deed number 202,443, between Manufacturas Kaltex, S.A. de C.V. and the Collateral Agent, with respect to the San Juan Machinery, and (b) the amendment and restatement agreement, executed before a Mexican notary public, dated as of the Issue Date to the non-possessory pledge agreement dated September 4, 2017, evidenced in the public deed number 202,444, between Kaltex Fibers, S.A. de C.V. and the Collateral Agent, which respect to the Tlaxinacalpan Machinery and Tlautla Machinery (collectively, the "*Existing Pledge Amendment Agreements*");

(iii) (a) the mortgage agreement, executed before a Mexican notary public, dated as of the Issue Date, with respect to the San Juan Land and Buildings, and (b) the mortgage agreement, executed before a Mexican notary public, dated as of the Issue Date, with respect to the Tlaxinacalpan Land and Buildings, in each case between Manufacturas Kaltex, S.A. de C.V. and the Collateral Agent (collectively, the "*New Mortgage Agreements*");

(iv) the non-possessory pledge agreement, executed before a Mexican notary public, dated as of the Issue Date between the Company and the Collateral Agent, with respect to the Collateral Asset Sale Accounts (the "*Collateral Asset Sale Accounts Pledge Agreement*"); and

(v) any other agreement, document or instrument related to the foregoing or that creates or purports to create a Lien in favor of any Agent for the benefit of the Secured Parties,

in each case, together with all extensions, renewals, amendments, modifications, supplements and restatements thereof.

"*Semiannual Period*" means, as applicable, (i) the first and second fiscal quarters in a fiscal year, and (ii) the third and fourth fiscal quarters in a fiscal year.

"*SGX-ST*" means the Singapore Exchange Securities Trading Limited.

"*Significant Subsidiary*" means a Restricted Subsidiary of the Company constituting a "Significant Subsidiary" of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof, determined in accordance with IFRS.

"*Specified Affiliate/Insider Disposition*" has the meaning set forth under "—Certain Covenants—Limitation on Transactions with Affiliates."

"*Standard Securitization Undertakings*" means representations, warranties, covenants and indemnities entered into by the Company or any Restricted Subsidiary which are reasonably customary in securitization of Receivables transactions.

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"*Subordinated Indebtedness*" means, with respect to the Company or any Note Guarantor, any Indebtedness of the Company or such Note Guarantor, as the case may be, which is expressly subordinated in right of payment to the Notes or the relevant Note Guarantee, as the case may be.

"*Subsidiary*" means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person's outstanding Voting Stock.

"*Successor Company*" has the meaning set forth under "—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets."

"*Unrestricted Subsidiary*" means Coltejer S.A. and each of its Subsidiaries. For the avoidance of doubt, the Company shall not be permitted to designate any other Unrestricted Subsidiaries.

"*U.S. Government Obligations*" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the Company's option.

"*Voting Stock*" with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

(1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into

(2) the sum of the products obtained by multiplying:

    (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by

    (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

"*Wholly-Owned Subsidiary*" means, for any Person, any Subsidiary (Restricted Subsidiary, in the case of the Company) of such Person of which all of the outstanding Capital Stock (other than in the case of a Subsidiary not organized in the United States, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by such Person or any other Person that satisfies this definition in respect of such Person (or combination thereof).

"*Working Capital Indebtedness*" has the meaning set forth under "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness."

TAXATION

U.S. Federal Income Tax Considerations

The following is a summary of U.S. federal income tax considerations generally applicable to the exchange by a U.S. Holder (defined below) of Existing Notes for New Notes, the Accrued Interest Payment, and the Exchange Premium pursuant to the Exchange Offer (the "Exchange") and to the ownership and disposition by a U.S. Holder of New Notes received in the Exchange. This summary assumes that U.S. Holders hold the Existing Notes, and will hold any New Notes received in the Exchange, as "capital assets" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code").

This discussion is general in nature and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular U.S. Holder in light of the U.S. Holder's particular circumstances, or to certain types of U.S. Holders subject to special treatment under U.S. federal income tax laws (such as insurance companies, tax-exempt organizations, regulated investment companies, real estate investment trusts, U.S. Holders that have a "functional currency" other than the U.S. dollar, persons required to accelerate the recognition of any item of gross income as a result of the recognition of such item on an applicable financial statement, persons holding Existing Notes or New Notes as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, financial institutions, brokers, dealers in securities or currencies, traders that elect to mark-to-market their securities and certain expatriates or former long-term residents of the United States). In addition, this discussion does not consider the effect of any alternative minimum taxes or foreign, state, local or other tax laws, or any U.S. non-income tax (e.g., estate or gift tax) considerations that may be applicable to particular U.S. Holders.

This discussion does not address U.S. federal income tax considerations that may be relevant to a partnership or an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes. The tax treatment of a partner in a partnership that holds Existing Notes or New Notes will generally depend upon the status of the partner and the activities of the partnership. Partnerships that hold Existing Notes, and partners in any such partnerships, should consult their tax advisers with respect to U.S. federal income tax considerations relating to the Exchange Offer.

This summary is based on the Code, U.S. Treasury Regulations, judicial decisions, published rulings of the Internal Revenue Service (the "IRS"), and other applicable authorities, all as in effect as of the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). No ruling has been or will be sought from the IRS regarding any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of those set forth below.

EACH HOLDER SHOULD CONSULT ITS TAX ADVISOR TO DETERMINE THE U.S. FEDERAL, STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO IT OF PARTICIPATING IN THE EXCHANGE OFFER IN LIGHT OF ITS PARTICULAR CIRCUMSTANCES. THIS SUMMARY OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of an Existing Note or a New Note that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States; (ii) a corporation (or other entity subject to tax as a corporation) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons (within the meaning of the Code) have the authority to control all of the trust's substantial decisions or (y) the trust has in effect a valid election to be treated as a United States person for U.S. federal income tax purposes.

U.S. Federal Income Tax Characterization of the New Notes

The proper U.S. federal income tax characterization of the New Notes as debt or equity is uncertain. The determination of whether an instrument is properly characterized as debt or equity for U.S. federal income tax purposes is based on all relevant facts and circumstances and depends on many factors, including, among others: (i) the intention of the parties, (ii) the seniority and security of the instrument in the issuer's capital structure, (iii) the projected ability of the issuer to make scheduled payments of interest and principal on the instrument, (iv) the overlap in ownership of

debt and equity holders, and (v) the debt-to-equity ratio of the issuer. The New Notes have several features that are debt-like, including that the New Notes are intended by the Company to constitute debt for all purposes, are secured senior obligations of the Company and have a relatively short term with a fixed and final maturity date. However, as described above under "Risk Factors—Risks Relating to our Business—There is material uncertainty relating to our viability as a going concern," the declaration of the COVID-19 pandemic in 2020 had a negative impact on the Company's industry and operations and the Company has suffered recent net losses and has lost all of its capital stock. However, the Company expects that, assuming that Management's plans to improve operating results are successfully implemented, it will have the financial resources to timely make the required payments of interest and principal on the New Notes. Furthermore, pursuant to the Funding Commitment Letter, certain Supporting Noteholders have agreed to purchase up to US$20,000,000 in principal amount of New Notes at a purchase price payable in U.S. Dollars of 100% of the principal amount thereof, and holders of the New Notes will be unrelated third parties that do not hold equity interests in the Company.

Based on the foregoing, although the matter is not free from doubt, we believe that the New Notes are likely to be treated as debt and not as equity for U.S. federal income tax purposes. Thus, although not free from doubt, we believe, and this discussion assumes, that the New Notes will be characterized as debt for U.S. federal income tax purposes. Nevertheless, no assurance can be given that the IRS would not assert that the New Notes should be treated as equity for U.S. federal income tax purposes. If the New Notes were to be treated as equity for U.S. federal income tax purposes, the U.S. federal income tax considerations relating to the Exchange and the ownership and disposition of New Notes (including with respect to the timing and character of income, gain, and loss recognized by a U.S. Holder) could differ materially from those described below. U.S. Holders should consult their tax advisors with respect to the U.S. federal income tax characterization of the New Notes.

U.S. Federal Income Tax Characterization of the Exchange Premium

Although not free from doubt, we believe that the Exchange Premium should be treated as additional consideration received in exchange for the Existing Notes, and the discussion below assumes such treatment. It is possible, however, that the IRS could take the position that the Exchange Premium instead should be treated as a separate fee or as additional interest that, in either case, would be subject to tax as ordinary income. U.S. Holders should consult their tax advisors with respect to the U.S. federal income tax treatment of the Exchange Premium.

U.S. Federal Income Tax Treatment of the Exchange

The exchange of Existing Notes for New Notes pursuant to the Exchange will constitute a disposition of such Existing Notes for U.S. federal income tax purposes if the exchange results in a "significant modification" of the Existing Notes under the applicable Treasury Regulations (the "Modification Regulations"). In general, the modification of a debt instrument (or an exchange of an existing debt instrument for a new debt instrument in the same issuer) is a significant modification under the Modification Regulations if, based on all the facts and circumstances and taking into account all modifications of the debt instrument collectively, the legal rights or obligations that are altered and the degree to which they are altered are economically significant.

Under the Modification Regulations, a change in yield of a debt instrument is a significant modification if the yield of the modified debt instrument varies from the yield on the unmodified instrument (determined as of the date of the modification) by more than the greater of (i) 25 basis points and (ii) 5 percent of the annual yield of the unmodified instrument. For this purpose, the yield of the modified debt instrument is the annual yield of a debt instrument with (i) an issue price equal to the adjusted issue price of the unmodified debt instrument on the date of the modification (increased by accrued but unpaid interest and decreased by payments made to the holder as consideration for the modification) and (ii) payments equal to the payments on the modified debt instrument from the date of the modification. The Modification Regulations also provide that, in general, a modification of a debt instrument that results in a material deferral of scheduled payments, including an extension of the final maturity date, is a significant modification.

We believe, and the following discussion assumes, that the Exchange will constitute a significant modification of the Existing Notes under the Modification Regulations. In such case, U.S. Holders will recognize gain

or loss on the Exchange unless the Exchange qualifies as a recapitalization for U.S. federal income tax purposes. The Exchange will qualify as a recapitalization if the Existing Notes and the New Notes received in the Exchange are both treated as "securities" under the relevant provisions of the Code. Neither the Code nor the Treasury regulations define the term security for this purpose. Whether a debt instrument is a security is based on all of the facts and circumstances and upon the application of principles enumerated in numerous judicial decisions. Factors evaluated include whether the holder of such debt instrument is subject to a material level of entrepreneurial risk and the holder's degree of participation and continuing interest in the debtor's business, but most authorities have held that the term to maturity of the debt instrument is one of the most significant factors. In this regard, debt instruments with a term of ten years or more generally have qualified as securities, whereas debt instruments with a term of less than five years generally have not qualified as securities. Whether a debt instrument with an original term of between five and ten years should be characterized as a security is not entirely clear. In addition, in certain circumstances, the term of a debt instrument received in a reorganization in exchange for another debt instrument that qualifies as a "security" may be considered to include the term of the original debt instrument for purposes of determining whether the newly received debt instrument is a security.

Based on the foregoing, although the matter is not free from doubt, we believe that the Exchange will not qualify for recapitalization treatment, and the discussion below assumes that the Exchange will be a taxable transaction for U.S. federal income tax purposes. Due to the inherently factual nature of the determination, however, each U.S. Holder should consult its tax advisor regarding the classification of the Existing Notes and New Notes as "securities" for United States federal income tax purposes and the possible application of the tax-free recapitalization rules.

Tax Considerations Relating to the Exchange

A U.S. Holder will recognize gain or loss on the Exchange in an amount equal to the difference between (i) the sum of (x) the Exchange Premium and (y) the issue price (determined as discussed below) of the New Notes received in the Exchange (in each case, including any Mexican or other non-U.S. tax withheld therefrom and any Additional Interest paid in respect thereof) and (ii) the U.S. Holder's adjusted tax basis in the Existing Notes surrendered in the Exchange. A U.S. Holder's adjusted tax basis in its Existing Notes will generally be equal to the amount paid therefor, increased by market discount, if any, previously included in the U.S. Holder's income and reduced by any bond premium previously amortized. The U.S. Holder's initial tax basis in its New Notes should generally be equal to the issue price of the New Notes, and the U.S. Holder's holding period in the New Notes will begin on the day after the date of the Exchange. If a U.S. Holder holds Existing Notes with differing tax bases and/or holding periods, the preceding rules must be applied separately to each identifiable block of Existing Notes.

Subject to the discussion below under "*—Market Discount*," any gain or loss recognized by a U.S. Holder on the Exchange will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Existing Notes exceeds one year on the date of the Exchange. Long-term capital gains of non-corporate U.S. Holders (including individuals) may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Gain recognized by a U.S. Holder on the Exchange will generally be treated as from sources within the United States for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to claim a credit for any Mexican or other non-U.S. tax imposed on such gain unless the credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. In addition, under recently issued U.S. Treasury Regulations, it is possible that a U.S. Holder may not be entitled to claim a U.S. foreign tax credit with respect to any Mexican withholding tax imposed on gain recognized on the Exchange unless the U.S. Holder is eligible for, and properly claims, the benefits of the income tax treaty between Mexico and the United States (the "Treaty"), pursuant to which the U.S. Holder may treat such gain as Mexican source for U.S. foreign tax credit limitation purposes. The rules governing the U.S. foreign tax credit are complex and the application thereof depends in large part on the U.S. Holder's individual facts and circumstances. Accordingly, U.S. Holders should consult their tax advisors regarding the availability of the U.S. foreign tax credit (or a deduction in lieu of the U.S. foreign tax credit) in their particular circumstances, as well as with respect to their eligibility for benefits under the Treaty and the effects of the recently issued Regulations.

Issue Price of the New Notes. If a substantial amount of the New Notes is issued for money (e.g., by the New Money Notes Funding Parties pursuant to the Funding Commitment Letter), the issue price of the New Notes will equal the amount of money paid therefor. For these purposes, ten percent of the amount of the issuance is generally considered a substantial amount. In addition, although the matter is not free from doubt, if the New Money Notes Funding Parties purchase a substantial amount of the New Notes for cash pursuant to the Funding Commitment Letter, we believe that the amount of money paid for the New Notes will be determined net of the Commitment Fee. If less than a substantial amount of the New Notes is issued for money, then the issue price of the New Notes will depend on whether the New Notes are considered "publicly traded" for U.S. federal income tax purposes. We expect that the New Notes will be considered to be publicly traded for U.S. federal income tax purposes; therefore, if less than a substantial amount of the New Notes is issued for money, we believe that the issue price of the New Notes will equal their fair market value on the date of the Exchange. For these purposes, we expect the Settlement Date to be deemed to be the date of the Exchange. We will provide you with information regarding our determination of the issue price in a commercially reasonable fashion as and to the extent required by applicable Treasury regulations. Our determination of the issue price is binding upon each U.S. Holder of New Notes unless the U.S. Holder explicitly discloses to the IRS, on its timely filed U.S. federal income tax return for the taxable year that includes the date of the Exchange, that its determination of the issue price is different from the Company's, the reasons for such different determination, and how the U.S. Holder determined the issue price.

Market Discount. A U.S. Holder will be considered to have acquired an Existing Note with "market discount" if the stated principal amount of the Existing Note exceeds the U.S. Holder's initial tax basis in the Existing Note by more than a *de minimis* amount (defined by statute). If Existing Notes were acquired with market discount, any gain recognized on the Exchange will be treated as ordinary income (and not capital gain) to the extent of the market discount accrued during the U.S. Holder's period of ownership, unless the U.S. Holder elected to include market discount in income as it accrued for U.S. federal income tax purposes. A U.S. Holder that acquired Existing Notes other than at original issuance should consult its tax advisor regarding the possible application of the market discount rules to a tender of Existing Notes pursuant to the Exchange Offer.

Accrued Interest Payment. The Accrued Interest Payment, including any Mexican tax withheld therefrom and Additional Interest paid in respect thereof, will generally be includible in the U.S. Holder's gross income as interest income to the extent not previously so included for U.S. federal income tax purposes. The Accrued Interest Payment will generally be treated as income from sources outside the United States and will generally constitute passive category income for U.S. foreign tax credit purposes. Mexican withholding taxes imposed on such interest will generally be treated as foreign income taxes that may be claimed as a credit against a U.S. Holder's U.S. federal income tax liability to the extent such taxes are not refunded to the U.S. Holder or to the Company. A U.S. Holder that does not elect to claim a foreign tax credit for any Mexican taxes withheld may instead claim a deduction for U.S. federal income tax purposes in respect of such withholding, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the U.S. foreign tax credit are complex and the application thereof depends in large part on the U.S. Holder's individual facts and circumstances. Accordingly, U.S. Holders should consult their tax advisors regarding the availability of the U.S. foreign tax credit in their particular circumstances.

Ownership and Disposition of the New Notes

Qualified Stated Interest. Qualified stated interest on the New Notes (including any Mexican tax withheld therefrom and Additional Interest paid in respect thereof) will generally be includible in a U.S. Holder's gross income as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Qualified stated interest is interest that is payable unconditionally in cash or in property (other than debt of the Company) at least annually at a single rate that appropriately takes into account the length of the interval between payments. All interest on the New Notes that must be paid in cash is qualified stated interest, while any interest that the Company may elect to pay in the form of PIK Notes is not qualified stated interest. Any such interest will generally be treated as income from sources outside the United States and will generally constitute passive category income for U.S. foreign tax credit purposes. Mexican withholding taxes imposed on such interest will generally be treated as foreign income taxes that may be claimed as a credit against a U.S. Holder's U.S. federal income tax liability to the extent such taxes are not refunded to the U.S. Holder or to the Company. A U.S. Holder that does not elect to claim a foreign tax credit for any Mexican taxes withheld may instead claim a deduction

for U.S. federal income tax purposes in respect of such withholding, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the U.S. foreign tax credit are complex and the application thereof depends in large part on the U.S. Holder's individual facts and circumstances. Accordingly, U.S. Holders should consult their tax advisors regarding the availability of the U.S. foreign tax credit in their particular circumstances.

Original Issue Discount. The New Notes will be treated as having been issued with original issue discount ("OID") for U.S. federal income tax purposes in an amount equal to the difference between their stated redemption price at maturity (i.e., the sum of all payments to be made on the New Notes other than qualified stated interest) and their issue price (determined as discussed above under "*—U.S. Federal Income Tax Treatment of the Exchange—Issue Price*"). As a result, each U.S. Holder of a Note will be required to include such OID in gross income on an economic accrual basis before the receipt of cash in respect thereof and regardless of such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. The amount of such OID inclusions will generally increase over time. Any OID so included will increase the U.S. Holder's adjusted tax basis in its New Notes by an equivalent amount. Any such OID will generally be considered foreign source interest income for U.S. foreign tax credit purposes.

Sale, Exchange, Retirement, or Other Taxable Disposition of the New Notes. A U.S. Holder will generally recognize gain or loss on the sale, exchange, retirement, or other taxable disposition of a New Note in an amount equal to the difference between the amount realized on the disposition (including any Mexican tax withheld therefrom and Additional Interest paid in respect thereof, but excluding any amount attributable to accrued but unpaid interest, which interest will be includible in the U.S. Holder's gross income as interest income to the extent not previously so included) and the U.S. Holder's adjusted tax basis in the New Note. A U.S. Holder's adjusted tax basis in a New Note will generally be the U.S. Holder's initial tax basis in the New Note (determined as discussed above under "*—U.S. Federal Income Tax Treatment of the Exchange*"), increased by any OID previously included in income with respect to the New Note, and reduced by any bond premium previously amortized.

Any gain or loss recognized by a U.S. Holder on the Exchange will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the New Notes exceeds one year on the date of the disposition. Long-term capital gains of non-corporate U.S. Holders (including individuals) may be eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Gain recognized by a U.S. Holder on the sale, exchange, retirement, or other taxable disposition of a New Note will generally be treated as from sources within the United States for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to claim a credit for any Mexican or other non-U.S. tax imposed on such gain unless the credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. In addition, under recently issued U.S. Treasury Regulations, it is possible that a U.S. Holder may not be entitled to claim a U.S. foreign tax credit with respect to any Mexican withholding tax imposed on gain recognized on the Exchange unless the U.S. Holder is eligible for, and properly claims, the benefits of the Treaty, pursuant to which the U.S. Holder may treat such gain as Mexican source for U.S. foreign tax credit limitation purposes. The rules governing the U.S. foreign tax credit are complex and the application thereof depends in large part on the U.S. Holder's individual facts and circumstances. Accordingly, U.S. Holders should consult their tax advisors regarding the availability of the U.S. foreign tax credit (or a deduction in lieu of the U.S. foreign tax credit) in their particular circumstances, as well as with respect to their eligibility for benefits under the Treaty and the effects of the recently issued Regulations.

Non-Exchanging U.S. Holders

The Exchange will generally not result in any U.S. federal income tax consequences to U.S. Holders that do not participate in the Exchange Offer.

THE FOREGOING DISCUSSION IS NOT INTENDED TO BE A COMPLETE ANALYSIS OR DESCRIPTION OF ALL POTENTIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OR ANY OTHER CONSIDERATIONS OF THE EXCHANGE OF THE NOTES PURSUANT TO THE EXCHANGE. THUS, EACH HOLDER SHOULD CONSULT ITS TAX ADVISOR REGARDING THE SPECIFIC TAX

CONSEQUENCES TO IT OF THE EXCHANGE, INCLUDING TAX RETURN REPORTING REQUIREMENTS, AND THE APPLICABILITY AND EFFECT OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER APPLICABLE TAX LAWS.

Mexican Federal Tax Considerations

This summary of certain Mexican federal income tax considerations refers only to holders of Existing Notes and, after completion of the Exchange Offer, New Notes, as applicable, that are not residents of Mexico for Mexican tax purposes and that do not hold Existing Notes or New Notes, as applicable, or a beneficial interest therein, through a permanent establishment for tax purposes in Mexico (any such non-resident holder, a "**Foreign Holder**"). For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her domicile in Mexico, unless he or she has a place of residence in another country, in which case such individual will be considered a resident of Mexico for tax purposes if such individual has his or her center of vital interest in Mexico. An individual would be deemed to maintain his or her center of vital interests in Mexico if, among other things, (i) more than 50% of his or her total income for a calendar year results from Mexican sources, or (ii) his or her principal center of professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and where his or her income is subject to a preferred tax regime as defined by Mexican law, will be considered Mexican residents for tax purposes during the fiscal year of the filing of notice of such residence change and during the following three fiscal years.

A legal entity is a resident of Mexico if it maintains the principal place of its management in Mexico or has established its effective management in Mexico.

A Mexican citizen is presumed to be a resident of Mexico unless such person can demonstrate the contrary. If a person has a permanent establishment for tax purposes in Mexico, such person shall be required to pay taxes in Mexico on any and all income attributable to such permanent establishment for tax purposes in accordance with the Mexican federal income tax law.

Taxation of New Notes

Under existing Mexican federal tax laws, a Foreign Holder will not be subject to any withholding or similar taxes imposed or levied by or on behalf of Mexico in respect of payments of principal on the New Notes made by Grupo Kaltex.

Under existing Mexican federal tax laws, payments of interest (or amounts deemed to be interest) made by Grupo Kaltex to a Foreign Holder in respect of the New Notes will be subject to withholding taxes, imposed at a rate of 4.9%, if, as expected:

(1) the New Notes are placed outside of Mexico by a bank or broker-dealer in a country with which Mexico has a valid double-taxation treaty in effect;

(2) the CNBV is notified of the issuance of the New Notes; and

(3) required information is timely filed with the *Servicio de Administración Tributaria* (Mexican Tax Administration Service), including information representing that no party related to Grupo Kaltex, directly or indirectly, is the effective beneficiary of 5% or more of the aggregate amount of each such interest payment.

If the aforementioned requirements are not satisfied, the applicable withholding tax rate will be higher.

Payments of interest made by Grupo Kaltex in respect of the New Notes to a non-Mexican pension or retirement fund will be generally exempt from Mexican withholding taxes, provided that:

(1) such fund is duly established pursuant to the laws of its country of residence and is the effective beneficiary of the interest paid;

(2) interest income is exempt from income tax in respect of such payments in such country of residence of the fund; and

(3) the fund provides information to us, that we can provide to the Mexican Tax Administration Service, in accordance with certain general rules issued for these purposes.

Taxation of Dispositions

Gains from the sale or other disposition of New Notes by a Foreign Holder to another Foreign Holder (other than to a permanent establishment in Mexico of a Foreign Holder) will not be subject to Mexican withholding taxes. However, gains resulting from the sale or other disposition of New Notes by a Foreign Holder to a Mexican resident for tax purposes or to a permanent establishment for tax purposes in Mexico of a Foreign Holder will be subject to Mexican withholding taxes pursuant to the rules described above applicable to interest payments in respect of the difference between the nominal value of the New Notes and the price obtained upon sale by the selling Foreign Holder, and any such withholding taxes will not benefit from our obligations to pay additional amounts.

Other Taxes

A Foreign Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the acquisition, ownership or disposition of New Notes, nor will it be liable for any Mexican stamp, issue, registration or similar taxes.

TRANSFER RESTRICTIONS OF NEW NOTES

The New Notes offered pursuant to this Exchange Offer Memorandum have not been and will not be registered under the Securities Act, or any state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the New Notes are being offered for exchange only (1) in the United States, to holders of Existing Notes who are "qualified institutional buyers" as defined in Rule 144A under the Securities Act, in a private transaction in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof, and (2) outside the United States, to holders of Existing Notes other than "U.S. persons" (as defined in Rule 902 under the Securities Act) ("Non-U.S. Persons", which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)) who are non-U.S. qualified offerees, in offshore transactions meeting the requirements of Rule 903 of Regulation S, and who are not acquiring New Notes for the account or benefit of a U.S. person. Only holders who have returned a duly completed eligibility letter certifying that they are within one of the categories described in the immediately preceding sentence are authorized to receive and review this Exchange Offer Memorandum and to participate in the Exchange Offer. As used herein, the terms "offshore transactions," "United States" and "U.S. person" have the respective meanings given to them in Regulation S.

"non-U.S. qualified offeree" means:

(1) in relation to each Member State of the European Economic Area (the "EEA"), a person that is not a retail investor. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II);

(2) in relation to the United Kingdom, a person that is not a retail investor in the United Kingdom. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA;

(3) in relation to an investor in the United Kingdom, persons who are "qualified investors" (as defined in the UK Prospectus Regulation) who are (i) persons having professional experience in matters relating to investments falling within Article 19(5) of the FSMA Order 2005 (as amended, the "Order"), or (ii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) persons to whom it would otherwise be lawful to distribute them, all such persons together being referred to as "Relevant Persons;" or

(4) any entity outside the U.S., the United Kingdom and the EEA to whom the offers related to the New Notes may be made in compliance with all other applicable laws and regulations of any applicable jurisdiction.

The New Notes have not been and will not be registered with the National Securities Registry maintained by the CNBV and therefore the New Notes may not be offered or sold publicly in Mexico absent an available exemption under the Ley del Mercado de Valores (Mexican Securities Market Law). The Exchange Offer is not being made in Mexico. As required under the Ley del Mercado de Valores (Mexican Securities Market Law), we will give notice to the CNBV of the Exchange Offer for informational purposes only. The delivery to, and receipt by, the CNBV of such notice does not certify the investment quality of the New Notes or our solvency. The information contained in this Exchange Offer Memorandum is our sole responsibility. This Exchange Offer Memorandum has not been filed with the CNBV, and the CNBV has not reviewed or authorized the content of this Exchange Offer Memorandum.

Each Holder of Existing Notes tendering Existing Notes for exchange will be deemed to have represented and agreed with us a as follows:

(1) it is tendering Existing Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser who is non-U.S. qualified offeree that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);

(2) it understands that the New Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the New Notes have not been and will not be registered under the Securities Act, and that the New Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except as set forth below;

(3) it shall not resell or otherwise transfer any of the New Notes except:

- to the Company or any of its subsidiaries;
- pursuant to a registration statement which has been declared effective under the Securities Act;
- within the United States to a QIB in compliance with Rule 144A under the Securities Act;
- outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act; or
- pursuant to another available exemption from the registration requirements of the Securities Act;

(4) it agrees that it will give notice of any restrictions on transfer of such New Notes to each person to whom it transfers the New Notes;

(5) it understands that the certificates evidencing the New Notes will bear a legend substantially to the following effect unless otherwise determined by us:

THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THE NOTES NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE THAT IS [IN THE CASE OF RULE 144A NOTES: SIX MONTHS] [IN THE CASE OF REGULATION S NOTES: FORTY DAYS] AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATE OF THE COMPANY WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH SECURITY), (2) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (3) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN EXCEPT (A) (I) TO THE COMPANY OR ANY

SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2(A)(V) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE SATISFACTORY TO EACH OF THEM AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE COMPANY.

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR "CNBV"), AND MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. THIS NOTE MAY BE OFFERED OR SOLD IN MEXICO, ON A PRIVATE PLACEMENT BASIS, TO INSTITUTIONAL AND QUALIFIED INVESTORS PURSUANT TO THE EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES OR "LMV"). AS REQUIRED UNDER THE LMV AND REGULATIONS THEREUNDER, THE COMPANY WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THE OFFERING OF THIS NOTE OUTSIDE OF MEXICO TO COMPLY WITH A LEGAL REQUIREMENT AND FOR STATISTICAL AND INFORMATIONAL PURPOSES ONLY. THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT THEREOF BY THE CNBV IS NOT A REQUIREMENT FOR THE VALIDITY OF THIS NOTE AND DOES NOT CONSTITUTE OR IMPLY A CERTIFICATION AS TO THE INVESTMENT QUALITY OF THIS NOTE, THE SOLVENCY, LIQUIDITY OR CREDIT QUALITY OF THE COMPANY. THIS NOTE IS SOLELY RESPONSIBILITY OF THE COMPANY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV. THE ACQUISITION OF THE NOTES BY AN INVESTOR WHO IS A RESIDENT OF MEXICO WILL BE MADE UNDER SUCH INVESTOR'S OWN RESPONSIBILITY.

(6) it acknowledges that the foregoing restrictions apply to holders of beneficial interests in the New Notes, as well as holders of the New Notes;

(7) it acknowledges that the Company will not be required to accept for registration of transfer any New Notes acquired by it, except upon presentation of evidence satisfactory to the Company that the restrictions set forth herein have been complied with; and

(8) it acknowledges that the Company, the Trustee, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the

acknowledgments, representations or agreements deemed to have been made for the exchange of the Existing Notes is no longer accurate, it shall promptly notify the Company and the Trustee. If it is exchanging the Existing Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

OFFER AND DISTRIBUTION RESTRICTIONS

We have not filed this Exchange Offer Memorandum with, and it has not been reviewed by, any federal or state securities commission or regulatory authority of any country. No authority has passed upon the accuracy or adequacy of this Exchange Offer Memorandum, and it is unlawful and may be a criminal offense to make any representation to the contrary.

This Exchange Offer Memorandum constitutes neither an offer to purchase nor a solicitation of consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such an offer or solicitation under applicable securities or "blue sky" laws. The delivery of this Exchange Offer Memorandum shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or thereof, or that there has been no change in the information set forth herein or therein or in our or any of our subsidiaries or affiliates since the date hereof or thereof.

Only Eligible Holders that have previously completed and returned to the Information and Exchange Agent an Eligibility Letter are authorized to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. No action has been or will be taken in any jurisdiction by us, the Dealer Manager or the Information and Exchange Agent that would constitute a public offering of the New Notes.

United States

The delivery of this Exchange Offer Memorandum will not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in our affairs since the date hereof.

We are not making an offer to sell, or seeking offers to buy, the New Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you tender Existing Notes for exchange, acquire New Notes or possess or distribute this Exchange Offer Memorandum, and you must obtain any consent, approval or permission required for your tender, offer, or subscription of the New Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such tender, offer or subscription. We will have any responsibility therefor.

Mexico

The New Notes have not and will not be registered with the National Securities Registry maintained by the CNBV and, therefore, may not be offered or sold publicly in Mexico or otherwise be subject to intermediation activities in Mexico, except pursuant to the registration exemptions provided in article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*). After the issuance of the New Notes, we will notify the CNBV of the terms and conditions of the offer of the New Notes outside of Mexico. Such notice will be submitted for informational purposes to the CNBV to comply with article 7, second paragraph, of the Mexican Securities Market Law and regulations thereunder. The delivery to, and receipt by, the CNBV of such notice does not constitute or imply any certification as to the investment quality of the New Notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this Exchange Offer Memorandum. This Exchange Offer Memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV, and may not be publicly distributed in Mexico. In making an investment decision, all investors, including any Mexican investor, who may acquire New Notes must rely on their own examination of us.

European Economic Area

The New Notes are not intended to be offered, or otherwise made available to and should not be offered or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering the New Notes or otherwise making them available to

retail investors in the EEA, has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

In any Member State of the EEA that has implemented the Prospectus Directive (each, a "Relevant Member State"); this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This Exchange Offer Memorandum has been prepared on the basis that any offer of New Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of New Notes. Accordingly any person making or intending to make any offer within the EEA of New Notes which are the subject of the offering contemplated in this Exchange Offer Memorandum may only do so in circumstances in which no obligation arises for us to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. We have not authorized the making of any offer (other than permitted public offers) of New Notes in circumstances in which an obligation arises for us to publish a prospectus for such offer.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any New Notes under, the offers contemplated in this Exchange Offer Memorandum will be deemed to have represented, warranted and agreed with us that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1) (e) of the Prospectus Directive; and

(b) in the case of any New Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the New Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive; or (ii) where New Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those New Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this notice and representation, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU."

United Kingdom

The New Notes are not intended to be offered otherwise made available to, and should not be offered or otherwise made available to, any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive (EU), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering the New Notes or otherwise making them available to retail investors in the United Kingdom has been prepared and therefore offering the New Notes or otherwise making them available to any retail investor in the United Kingdom may be unlawful under the UK PRIIPs Regulation.

In the United Kingdom, this Exchange Offer Memorandum is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of any New Notes may otherwise lawfully be communicated or caused to be

communicated (all such persons together being referred to as "relevant persons"). This Exchange Offer Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Exchange Offer Memorandum relates is available only to and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this Exchange Offer Memorandum or any of its contents.

Canada

The New Notes may be offered only to accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the New Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide investors with remedies for rescission or damages if this Exchange Offer Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the investors within the time limit prescribed by the securities legislation of the investor's province or territory. The investor should refer to any applicable provisions of the securities legislation of the investor's or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), investors are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Exchange Offer Memorandum.

Notice to Prospective Investors in Switzerland

This Exchange Offer Memorandum, as well as any other material relating to the New Notes which are the subject of the offering contemplated by this Exchange Offer Memorandum, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The New Notes will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the New Notes, including, but not limited to, this Exchange Offer Memorandum, do not claim to comply with the disclosure standards of the listing rules of the SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange. The New Notes are being offered in Switzerland by way of a private placement, i.e., to Eligible Holders only, without any public offer and only to investors who do not tender for exchange the Existing Notes with the intention to distribute the New Notes to the public. Eligible Holders will be individually approached by the Dealer Manager from time to time. This Exchange Offer Memorandum, as well as any other material relating to the New Notes, is personal and confidential and do not constitute an offer to any other person. This Exchange Offer Memorandum may only be used by those investors to whom it has been provided in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Dubai International Financial Centre

This Exchange Offer Memorandum relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This Exchange Offer Memorandum is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this Exchange Offer Memorandum nor taken steps to verify the information set out in it, and has no responsibility for it. The New Notes which are the subject of the offering contemplated by this Exchange Offer Memorandum may be illiquid and/or subject to restrictions on their resale. Eligible Holders of the New Notes offered should conduct their own due diligence on the New Notes. If you do not understand the contents of this Exchange Offer Memorandum you should consult an authorized financial adviser.

Hong Kong

This Exchange Offer Memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. No person may offer or sell in Hong Kong, by means of any document, any New Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the New Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Notes which are or are intended to be disposed of only to persons outside Hong Kong or to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance or to any persons in the circumstances referred to in paragraph (ii) above.

Singapore

This Exchange Offer Memorandum has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, the New Notes will not be offered or caused to be made the subject of an invitation for subscription or purchase and this Exchange Offer Memorandum, or any other document or material in connection with the Exchange Offer for the New Notes, will not be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore (the "SFA")) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Notes are subscribed or purchased in reliance of an exemption under Section 274 or 275 of the SFA, the New Notes must not be sold within the period of six (6) months from the date of the initial acquisition of the New Notes, except to any of the following persons:

(i) an institutional investor (as defined in Section 4A of the SFA);

(ii) a relevant person (as defined in Section 275(2) of the SFA); or

(iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA or Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Where the New Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust must not be transferred within six (6) months

after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or (in the case of such corporation) where the transfer arises from an offer referred to in Section 276(3)(c)(ii) of the SFA or (in the case of such trust) where the transfer arises from an offer referred to in Section 276(4)(c)(ii) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Any reference to the SFA is a reference to the Securities and Futures Act 2001 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Notification Pursuant to Section 309B(1) of the Securities and Futures Act 2001 of Singapore

The New Notes are prescribed capital markets products as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore.

Japan

The New Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, it will not be offered, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan. For purposes of this paragraph, "resident of Japan" shall have the meaning as defined under the Foreign Exchange and Foreign Trade Law of Japan.

Peru

Neither this Exchange Offer Memorandum nor the New Notes have been registered with the S*uperintendencia del Mercado de Valores* (Peruvian Securities Market Regulator).

The New Notes will not be registered in the *Registro Público del Mercado de Valores* (Peruvian Securities Registry). As a result, the offering of the New Notes is limited to the restrictions set forth in the Peruvian Securities Market Law. Holders of the New Notes are not permitted to transfer the New Notes in Peru unless such transfer involves an institutional investor or the New Notes are previously registered in the *Registro Público del Mercado de Valores*.

Chile

The offer of the New Notes is subject to General Rule No.336 issued by the *Superintendencia de Valores y Seguros de Chile* (Chilean Securities and Insurance Superintendency or "SVS"). The commencement date of this offering is the one contained in the cover pages of this Exchange Offer Memorandum. The New Notes will not be registered in the *Registro de Valores* (Chilean Securities Registry) or the *Registro de Valores Extranjeros* (Chilean Foreign Securities Registry), both kept by the SVS and will not be subject to the supervision of the SVS.

As unregistered securities, we have no obligation to deliver/disclose public information about the New Notes in Chile. The New Notes cannot and will not be publicly offered in Chile unless registered in the *Registro de Valores* or the *Registro de Valores Extranjeros*, both kept by the SVS. If the New Notes are offered within Chile, they will be offered and sold only pursuant to General Rule 336 of the SVS, an exemption to the registration requirements, or in circumstances which do not constitute a public offer of securities under Chilean law.

La oferta de los valores se acoge a la Norma de Carácter General Nº336 de la Superintendencia de Valores y Seguros o "SVS". La fecha de inicio de la presente oferta es la indicada en la portada de este Exchange Offer Memorandum. Los valores no estarán inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, y tales valores no estarán sujetos a la fiscalización de la SVS. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Los valores no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores o el Registro de Valores Extranjeros que lleva la SVS. Si los valores son ofrecidos dentro de Chile, serán ofrecidos y colocados sólo de acuerdo a la Norma de Carácter General Nº336 de la SVS, una excepción a la obligación de inscripción o en circunstancias que no constituyan una oferta pública de valores en Chile de conformidad a la ley chilena.

THE INFORMATION AND EXCHANGE AGENT AND THE DEALER MANAGER

D.F. King & Co., Inc. has been appointed as the Information and Exchange Agent for the Exchange Offer. We will pay the Information and Exchange Agent reasonable and customary fees for its services and will reimburse it for its reasonable, out-of-pocket expenses in connection with the Exchange Offer.

BCP Securities, Inc. has been engaged to act as Dealer Manager in connection with the Exchange Offer. In such capacity, the Dealer Manager may contact Eligible Holders regarding the Exchange Offer, subject to each such Eligible Holder having completed and returned to the Information and Exchange Agent an Eligibility Letter (see "The Exchange Offer—Eligibility to Participate in the Exchange Offer"), and may request brokers, dealers, commercial banks, trust companies and other nominees to forward the Exchange Offer Memorandum and related materials to beneficial owners of Existing Notes, subject to each such beneficial owner completing an Eligibility Letter.

We have agreed to pay the Dealer Manager a customary fee for their services as Dealer Manager in connection with the Exchange Offer. In addition, we will reimburse the Dealer Manager for certain of its reasonable out-of-pocket expenses. We have also agreed to indemnify the Dealer Manager and each of its directors, officers, employees and agents and each other person, if any, controlling them within the meaning of the Securities Act against certain liabilities under U.S. federal or state law or otherwise caused by, relating to or arising out of the Exchange Offer.

The Dealer Manager and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. It has received and may in the future receive customary fees and commissions for these transactions.

At any given time, the Dealer Manager may trade the Existing Notes or any of our other securities for its own account or for the accounts of their customers and, accordingly, may hold a long or short position in the Existing Notes or any such other securities. The Dealer Manager is not obligated to make a market for the Existing Notes. In addition, the Dealer Manager may tender Existing Notes in the Exchange Offer.

Neither the Dealer Manager nor the Information and Exchange Agent assumes any responsibility for the accuracy or completeness of the information concerning us or our affiliates or the Existing Notes contained or referred to in this Exchange Offer Memorandum or for any failure by us to disclose events that may have occurred and may affect the significance or accuracy of such information.

We will not make any payment to brokers, dealers or others soliciting acceptances of the Exchange Offer other than the Dealer Manager, as described above.

Any questions or requests for assistance or for additional copies of the Exchange Offer Memorandum may be directed to the Information and Exchange Agent at one of the telephone numbers provided on the back cover of this Exchange Offer Memorandum. Eligible Holders may also contact the Dealer Manager at the telephone number provided on the back cover of this Exchange Offer Memorandum for assistance concerning the Exchange Offer.

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Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2020, 2019 and 2018, and Independent Auditors' Report Dated August 26, 2021

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2020, 2019 and 2018

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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Kaltex, S. A. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Kaltex, S. A. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2020, 2019 and 2018, and the consolidated statements of loss and other comprehensive loss, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of Grupo Kaltex, S.A. de C.V. and subsidiaries as of December 31, 2020, 2019 and 2018, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor´s Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As mentioned in Note 1a to the consolidated financial statements, the declaration of the COVID-19 pandemic that emerged in 2020 had a major impact on the textile industry, adversely affecting the financial results of the Entity and, consequently, primarily on operating results and cash flows.

For the year ended December 31, 2020, operating income decreased 23.7% compared to the year ended December 31, 2019, mainly driven by the COVID-19 effects in the markets where the Entity operates.

The Entity has undertaken a series of internal actions to ensure the viability and the results of its operations will depend upon the continuity of the pandemic and the measures taken by different governments with respect to the operation of the Entity, as well as the ability of management to generate positive income and liquidity. Our opinion has not been modified in relation to this matter.

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Deloitte.

Management's Responsibility and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity´s ability to continue as a going concern, disclosing, as applicable, matters, related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity´s financial reporting process.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management´s use of the going concerns basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

Deloitte.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Adalberto Chaparro Zúñiga
August 26, 2021

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	Note	2020	2019	2018
Assets				
Current assets:				
Cash and cash equivalents	5	$ 180,392	$ 398,730	$ 417,291
Accounts receivables, net	6	2,229,922	2,368,255	2,702,461
Due from related parties	22	228,528	127,745	88,360
Inventories, net	7	2,189,662	3,624,040	3,967,173
Prepaid expenses		252,187	191,895	291,053
Assets available for sale	23	6,565,571	-	-
Total current assets		11,646,262	6,710,665	7,466,338
Non-current assets:				
Property, plant and equipment, net	8	9,448,742	10,329,507	11,036,901
Right-of-use assets	10	702,336	3,542,349	-
Investment properties	9	1,567,057	1,806,191	1,736,974
Deferred income tax	25	384,572	756,074	276,582
Derivate financial instruments	11	-	67	5,130
Other assets, net	12	24,499	1,461,576	1,467,585
Total non-current assets		12,127,206	17,895,764	14,523,172
Total assets		$ 23,773,468	$ 24,606,429	$ 21,989,510

	Note	2020	2019	2018
Liabilities and stockholders' equity				
Current liabilities:				
Bank loans	13	$ -	$ 106,425	$ 100,220
Current portion of long-term debt	14	81,344	152,233	259,688
Accounts payable to suppliers		1,932,882	3,097,864	3,387,163
Short-term lease liability	15	78,232	169,615	-
Due to related parties	22	401,238	369,679	296,362
Other accounts payable and accrued liabilities	16	1,943,257	1,424,571	1,415,678
Direct employee benefits		62,815	79,343	79,870
Advance payments from customers		18,853	7,111	110,705
Liabilities available for sale	23	4,165,941	-	-
Total current liabilities		8,684,562	5,406,841	5,649,686
Non- current liabilities:				
Long-term debt	14	6,372,752	5,994,134	6,299,784
Accounts payable to related parties	22	3,275,993	3,215,381	2,258,873
Lease liability	15	597,816	3,464,071	-
Employee retirement benefits	17	577,539	545,617	442,591
Labor provision	26	6,106	13,303	9,106
Deferred income tax	25	1,820,521	1,934,253	1,527,565
Total non - current liabilities		12,650,727	15,166,759	10,537,919
Total liabilities		21,335,289	20,573,600	16,187,605
Stockholders' equity:				
Capital stock	20	4,017,990	4,017,990	4,017,990
Accumulated deficit		(2,926,080)	(1,775,366)	(1,105,715)
Other comprehensive income		14,693	(143,412)	130,566
Controlling interest		1,106,603	2,099,212	3,042,841
Non-controlling interest	21	1,331,576	1,933,617	2,759,064
Total stockholders' equity		2,438,179	4,032,829	5,801,905
Total liabilities and stockholders' equity		$ 23,773,468	$ 24,606,429	$ 21,989,510

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Loss and Other Comprehensive Loss

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	Note	2020	2019	2018
Net sales	27	$ 11,461,907	$ 14,078,291	$ 14,538,997
Cost of sales	23	9,511,174	12,102,757	12,761,233
Gross profit		1,950,733	1,975,534	1,777,764
Sales expenses	23	601,999	706,387	704,436
Administrative expenses	23	735,293	735,604	805,394
Other expenses (income), net	24	346,117	(34,009)	(205,680)
Operating profit		267,324	567,552	473,614
Interest expense		1,023,497	1,073,654	926,074
Interest income		(15,755)	(12,996)	(5,691)
(Income) loss on valuation of derivative financial instruments	11	(11,175)	21,526	96,503
Exchange loss (gain), net		524,132	(347,459)	(6,306)
Loss before tax		(1,253,375)	(167,173)	(536,966)
Income tax	25	300,432	177,235	94,422
Net consolidated loss from continuing operations		(1,553,807)	(344,408)	(631,388)
Discontinued operations	23	(146,588)	69,017	101,628
Net consolidated loss		(1,700,395)	(275,391)	(529,760)
Other comprehensive income (loss), net of income tax:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gain (loss) on employee benefits, net of income tax	17	2,641	(41,372)	28,974
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment		103,104	(320,958)	(265,087)
Other comprehensive gain (loss) for the year		105,745	(362,330)	(236,113)
Consolidated comprehensive loss		$ (1,594,650)	$ (637,721)	$ (765,873)
Consolidated net loss attributable to:				
Controlling interest		$ (1,150,714)	$ (180,828)	$ (404,031)
Non-controlling interest	21	(549,681)	(94,563)	(125,729)
		$ (1,700,395)	$ (275,391)	$ (529,760)
Consolidated comprehensive net loss attributable to:				
Controlling interest		$ (992,609)	$ (454,806)	$ (530,966)
Non-controlling interest		(602,041)	(182,915)	(234,907)
		$ (1,594,650)	$ (637,721)	$ (765,873)

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

			Other comprehensive income (loss)				
	Capital stock	Accumulated deficit	Cumulative translation adjustment	Actuarial gain on employee benefits	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2018	$ 4,017,990	$ (693,400)	$ 182,909	$ 74,592	$ 3,582,0919	$ 2,993,971	$ 6,576,062
Initial application of IFRS 9	-	(8,284)	-	-	(8,284)	-	(8,284)
Comprehensive loss for the year	-	(404,031)	(155,909)	28,974	(530,966)	(234,907)	(765,873)
Balances as of December 31, 2018	4,017,990	(1,105,715)	27,000	103,566	3,042,841	2,759,064	5,801,905
Dividends declared	-	(141,200)	-	-	(141,200)	-	(141,200)
Purchase of non-controlling interest	-	(347,623)	-	-	(347,623)	(642,532)	(990,155)
Comprehensive loss for the year	-	(180,828)	(232,606)	(41,372)	(454,806)	(182,915)	(637,721)
Balances as of December 31, 2019	4,017,990	(1,775,366)	(205,606)	62,194	2,099,212	1,933,617	4,032,829
Comprehensive loss for the year	-	(1,150,714)	155,464	2,641	(992,609)	(602,041)	(1,594,650)
Balances as of December 31, 2020	$ 4,017,990	$ (2,926,080)	$ (50,142)	$ 64,835	$ 1,106,603	$ 1,331,576	$ 2,438,179

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	2020	2019	2018
Cash flows from operating activities:			
Consolidated net loss	$ (1,553,807)	$ (344,408)	$ (631,388)
Adjustments for:			
Income tax expense recognized in net loss	300,432	177,235	94,422
Loss on disposal of property, plant and equipment	1,507	33,454	1,516
Depreciation and amortization	479,512	517,167	552,922
Depreciation of right-of-use asset	110,769	98,333	-
Fair value adjustment of investment properties	(259,155)	(157,942)	(110,702)
Interest income	(15,755)	(12,996)	(5,691)
Interest expense	1,023,497	1,073,654	926,074
Unrealized foreign exchange, net	(576,072)	(519,255)	105,249
	(489,072)	865,242	932,402
Changes in working capital:			
(Increase) decrease in:			
Accounts receivables, net	(105,390)	254,553	(193,166)
Inventories, net	361,042	555,061	(416,106)
Prepaid expenses	(44,817)	58,444	(73,848)
Other assets, net	21,541	5,760	(11,006)
Increase (decrease) in:			
Accounts payable to suppliers	(27,121)	(308,495)	429,111
Accounts payable to related parties	49,319	168,966	(23,154)
Other accounts payable and accrued liabilities	1,717,124	(147,951)	409,865
Direct employee benefits	(16,528)	(527)	(528)
Advance payments from customers	11,772	(103,594)	(24,757)
Income taxes paid	(324,984)	(230,943)	(99,002)
Retirement employee benefits	45,949	49,028	9,907
Contingencies	(1,784)	7,890	-
Cash flows from discontinued operations	336,469	403,348	322,304
Net cash flows generated by operating activities	1,533,520	1,576,782	1,262,022
Cash flows from investing activities:			
Interest received	15,755	12,996	5,691
Acquisition of property, plant and equipment	(312,866)	(253,627)	(231,739)
Sale of property, plant and equipment	2,319	99,277	253
Cash flows from discontinued activities	(40,555)	(105,349)	(270,230)
Net cash flows used in investing activities	(335,347)	(246,703)	(496,025)

	2020	2019	2018
Cash flows from financing activities:			
Proceeds from debt	101,876	277,002	655,135
Payments of debt	(68,164)	(145,684)	(1,278,831)
Proceeds from related parties	13,000	-	562,114
Payments of related parties	(127,433)	-	-
Purchase of non - controlling interest	-	(82,155)	(15,203)
Lease payments and interest	(11,055)	(175,885)	-
Interest paid	(746,179)	(703,333)	(710,187)
Dividends paid	(110,400)	(141,200)	-
Cash flows from discontinued operations	(472,903)	(377,219)	-
Net cash flow used in financing activities	(1,421,258)	(1,348,474)	(786,972)
Net decrease in cash and cash equivalents	(223,085)	(18,395)	(20,975)
Effects of exchange rate changes on the balance of cash held in foreign currencies	4,747	(166)	6,532
Cash and cash equivalents at the beginning of the year	398,730	417,291	431,734
Cash and cash equivalents at the end of the year	$ 180,392	$ 398,730	$ 417,291

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos, except as indicated)

1. Activities and significant events:

Activities

Grupo Kaltex, S. A. de C. V. and Subsidiaries ("Kaltex" or the "Entity") is the majority shareholder of a group of entities principally engaged in the manufacturing and distribution of yarns and fabrics of all kinds of natural and synthetic fibers, the maquila and marketing of clothing and bedding for home, logistics services, as well as the operation of clothing stores.

The Corporate address of the Entity is Av. Ingenieros Militares No. 2, Colonia Empleado, C.P. 53380, Naucalpan de Juarez, Estado de México, México.

Significant events

a. ***Implications resulted from COVID-19 –*** Net sales in 2020 decreased by 23.7% to $13,547, compared to $17,750 the previous year. This decrease is mainly due to the impact of the contingency related to the COVID-19 pandemic, which adversely affected the Entiy's operations.

Earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization (EBITDA) in 2020 decreased 14.02% to reach $807,542, compared to $939,176 the previous year. The decrease in EBITDA of $131,634 was mainly due to the decrease in the generation of EBITDA in all business segment of the Entity, affected by the implementation of contingency measures by the COVID-19 pandemic.

b. ***Sale of Milano*** - On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party MCM, S.A. de C.V., whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in 2021. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020, 2019 and 2018 present the results associated with Milano as discontinued operations. With the resources obtained from said sale, the Entity reduced the debt balance from USD $320 to USD $260 million as of June 30, 2021.

c. ***Sale of Revman*** - On June 30, 2021, the holding company Kaltex Northamerica, Inc., a subsidiary of Kaltex sold the its investment in its subsidiary Revman International, Inc. to a third party for US $66 million, which will be paid in June US $40 million and in September US $26. Given that Revman does not represent a major segement of the Entity, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date.

d. ***Acquisition of non-controlling interest*** - On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary entity of Kaltex) signed an agreement to purchase shares that represent 28% of the non- controlling interest of Grupo Milano, S.A. de C.V., thereby increasing its participation in that entity to 100%. The amount of the transaction was for US $52 million. The amount of the transaction was $990 million; which $908 million was recorded as an account payable to related parties (see Note 21) and $82 million in cash.

2. Adoption of new and revised International Financial Reporting Standards

a. ***Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year***

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

Management continues to work with its lenders as it relates to changes in the interest rate benchmarks to ensure compliance with the applicable requirements; however, it does not expect a material impacts as of a result of these changes to its consolidated financial statements. These modifications have not implied changes for the Entity since it has no exposure to IBOR reference interest rates.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Entity has not applied the amendment to IFRS 16 (as issued by the IASB in May 2020), for this reason did not have any material effects.

Amendments to References to the Conceptual Framework in IFRS Standards	The Entity has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

	The Standards, which are amended, are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Amendments to IFRS 3 Definition of a business	The Entity has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.
Amendments to IAS 1 and IAS 8 Definition of material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term ‘material’ to ensure consistency.

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Annual Improvements to IFRS Standards 2018–2020

The *Annual Improvements* include amendments to four Standards.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date, the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

3. Significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

The entity's management has, at the time of approving the financial statements, a reasonable expectation that the Entity has the necessary resources to continue operating in the foreseeable future. Therefore, they continue to adopt the Going Concern accounting basis when preparing the financial statements.

b. ***Basis of measurement***

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for (certain financial instruments, real estate, machinery and equipment, investment properties, intangible assets, financial assets, financial liabilities, cash and cash equivalents) that they are valued at revalued amounts or at their reasonable values at the end of each period, as explained in the accounting policies included below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of consolidation of the financial statements***

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Entity's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 – Financial Instruments, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Entity's main subsidiaries are:

Entity	Participation 2020	Participation 2019	Participation 2018	Activity
Kaltex Textiles, S.A. de C. V. and subsidiaries	73.7%	73.7%	73.7%	Majority stockholder of a group of entities principally engaged in the manufacture and distribution of yarns and fabrics all kinds of natural and synthetic fibers, as well as the maquila and marketing of clothing and bedding for home.
Kaltex Comercial, S. A. de C. V. and subsidiaries	100%	100%	72%	Majority stockholder of a group of entities principally engaged in buy and selling of bedding for home and clothing and operation of clothing stores.
Kaltex Internacional, S. A. de C. V. and subsidiaries	60.26%	60.26%	60.26%	Majority stockholder of a group of foreign subsidiaries principally engaged in manufacturing of all kinds of fabrics, threads and marketing of apparel and bedding for home.

Entity	Participation 2020	Participation 2019	Participation 2018	Activity
Kaltex Energía, S. A. de C. V. and subsidiaries	100%	100%	100%	Majority stockholder of a group of entities principally engaged in the supply of energy to the manufacturing facilities of Manufacturas Kaltex, S. A de C.V and Kaltex Fibers, S. A de C.V., related parties

d. ***Translation of financial statements of foreign subsidiaries***

To consolidate the financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to IFRS based on the transaction recording currency. The financial statements are translated into Mexican pesos (presentation currency), considering the following methodology:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the recording currency to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the statement of financial position date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item; translation effects are recorded exchange (loss) gain, net, within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the statement of financial position date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

The recording and functional currencies of foreign operations as well as the exchange rates used in the different translation processes are as follows:

Entity	Recording currency	Functional currency
Kaltex North America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex America, Inc.	U.S. Dollar	U.S. Dollar
Revman International, Inc.	U.S. Dollar	U.S. Dollar
Kaltex Latino América, S.A.S.	Colombian Peso	Colombian Peso
Kaltex Colombia, S. A. S.	Colombian Peso	Colombian Peso
Coltejer, S. A.	Colombian Peso	Colombian Peso
Kaltex-Argus, S. A.	Nicaraguan Cordoba	U.S. Dollar

e. ***Financial instruments***

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

f. ***Financial assets***

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and

- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

(i) ***Amortized cost and effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income."

(ii) ***Equity instruments designated as at FVTOCI***

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(iii) ***Financial assets at FVTPL***

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is held neither for trading nor for a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) ***Significant increase in credit risk***

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,

(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily; reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) ***Definition of default***

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or

- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) ***Credit-impaired financial assets***

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;

(b) A breach of contract, such as a default or past due event (see (ii) above);

(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) ***Write-off policy***

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) ***Measurement and recognition of expected credit losses***

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(vi) ***Derecognition of financial assets***

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

g. ***Financial liabilities***

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

h. ***Derivative financial instruments***

The Entity has derivative financial instruments to manage its exposure to foreign exchange rate risks, mainly through a foreign exchange forward and option contracts. Further details of derivative financial instruments are disclosed in Note 11.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

i. ***Hedge accounting***

The Entity designates certain derivatives as hedging instruments with respect to foreign currency risk and interest rate risk in fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The hedges of foreign currency risk in firm commitments are accounted for as cash flow hedges.

At the beginning of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, together with its risk management objectives and its strategy to carry out various hedging transactions. In addition, at the beginning of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is effective to offset changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the coverage meet all of the following coverage effectiveness requirements:

- There is an economic relationship between the hedging instrument and the hedged item;
- The effect of credit risk does not dominate the value of the changes resulting from the economic relationship; and
- The coverage ratio of the coverage ratio is the same as that resulting from the amount of the hedged item that the Entity actually covers and the amount of the hedging instrument that the Entity actually uses to cover that amount of the hedged item.

If a hedging relationship fails to meet the hedge effectiveness requirement related to the hedging relationship, but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedging relationship of the hedging relationship. coverage (that is, rebalances the coverage) so that it meets the qualification criteria again.

The Entity designates the complete change in the fair value of a forward contract (that is, it includes the forward elements) as the hedging instrument for all its hedging relationships that involve forward contracts.

The Entity designates only the intrinsic value of the option contracts as a hedged item, that is, excluding the time value of the option. Changes in the fair value of the time value of the option are recognized in other comprehensive income and are accumulated in the cost of the hedge reserve. If the hedged item is related to the transaction, the time value is reclassified to profit or loss when the hedged item affects the profit or loss. If the hedged item is related to the period of time, then the accumulated amount in the cost of the hedge reserve is reclassified to profit or loss in a rational manner: The Entity applies amortization in a straight line. These reclassified amounts are recognized in profit or loss in the same item as the hedged item. If the hedged item is a non-financial item, the accumulated amount in the cost of the hedge reserve is eliminated directly from the equity and is included in the initial carrying amount of the recognized non-financial item. In addition, if the Entity expects that part or all of the accumulated loss in the cost of the hedge reserve will not be recovered in the future, that amount will be reclassified immediately to results.

Fair value hedges

The change in the fair value of qualified hedging instruments is recognized in profit or loss, except when the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item that has not yet been measured at fair value is adjusted for the change in fair value attributable to the hedged risk with a corresponding entry in results. For debt instruments measured at fair value through other comprehensive income, the book value is not adjusted since it is at fair value, but the gain or loss of coverage is recognized in profit or loss instead of another result integral. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the gain or loss of coverage remains in other comprehensive income to coincide with that of the hedging instrument.

When the gains or losses of coverage are recognized in results, they are recognized in the same item as the hedged item.

The Entity interrupts hedge accounting only when the hedge relationship (or a part of it) fails to meet the rating criteria (after rebalancing, if applicable). This includes the cases in which the hedging instrument expires or is sold, canceled or exercised. The suspension is accounted for prospectively.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Entity expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

j. ***Cash and cash equivalents***

Consist mainly of bank deposits in checking accounts and investments in short-term securities, highly liquid, easily convertible into cash and have maturities of three months from the date of purchase and not subject to material risk of changes in value. Cash is stated at nominal value and cash equivalents are measured at fair value; fluctuations in value are recognized in earnings. The cash equivalents are represented by investments in money market funds, investment funds, bank and governmental bonds, as well as investments on demand in Mexican pesos and US dollars.

k. ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

l. ***Property, plant and equipment***

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation of property, plant and equipment is recognized in profit or loss.

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	Useful live (years)	Remaining useful live (years)
Buildings		
Infrastructure	80	48
Electric, hydraulic and related installations	40	8
Building finishes	20	-
Industrial machinery and equipment	Between 20 to 30	Between 6 to 12
Transportation equipment	4 and 5	Between 1 to 5
Office furniture and equipment	10	Between 4 to 10
Computer equipment	3	1

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

m. ***Investment property***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Entity's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

n. ***Intangible assets***

1. *Intangible assets acquired separately*

   Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2. *Intangible assets acquired in a business combination*

   Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. (which is regarded as their cost).

   Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. *Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

o. ***Brands***

Brands are not amortized, but they are reviewed for impairment at least annually. For the purposes of the impairment tests, they are assigned to each of the Entity's cash generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination. The cash-generating units to which the brands have been assigned are analyzed for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying value of any goodwill allocated to the unit and then to the other assets of the unit. the unit pro rata on the basis of the book value of each asset in the unit. An impairment loss recognized for brands is not reversed in a subsequent period. When having a cash-generating unit, the attributable amount of the impairment is included in the determination of the gain or loss in the provision.

p. ***Impairment of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

q. ***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

r. ***Leases***

The Entity as lessee

The Entity evaluates whether a contract contains a lease at its source. The Entity recognizes a right-of-use asset for use rights and a corresponding lease liability with respect to all the lease agreements in which it is a lessee, except for short-term leases (12 months or less) and those for low-value assets. For these leases, the Entity recognizes rental payments as an operating expense under the straight-line method throughout the period of the lease, unless another method is more representative of the pattern of time in which the economic benefits from consumption of leased assets.

The lease liability is initially measured at the present value of the rent payments that are not paid on the start date, discounted by the rate implicit in the contract. If this rate cannot be easily determined, the Entity uses incremental rates.

The rent payments included in the measurement of the lease liability consist of:

- Fixed rent payments (including fixed payments in substance), less any lease incentives received;
- Variable income payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; y
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in current and long-term liabilities in the consolidated statement of financial position. The contractual maturities of the obligations for this concept are shown in Note 18f.

The lease liability is subsequently measured by increasing the book value to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rent payments made.

The Entity reevaluates the lease liability (and adjusts the corresponding asset for relative use rights) provided that:

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rental payments using an updated discount rate.

- The rent payments are modified as a consequence of changes in indexes, rate or in the expected payment under a guaranteed residual value, in which cases the lease liability is re-evaluated by discounting the updated rent payments using the same discount rate (unless that the change is due to a change in the variable interest rate, in which case an updated discount rate is used).
- A lease is amended and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is re-evaluated based on the lease term of the modified lease, discounting updated rental payments using a discount rate updated to the effective date of the modification.

Assets for rights of use consist of the initial measurement of the corresponding lease liability, the rent payments made on or before the commencement date, less any lease incentives received and any direct initial cost. Subsequent valuation is cost less accumulated depreciation and impairment losses.

If the Entity incurs an obligation arising from the costs of dismantling and removing a leased asset, restoring the bond in which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37. To the extent that costs are related to an asset for rights of use, costs are included in the asset for rights of related use, unless such costs are incurred to generate inventories.

In some cases, rights-of-use assets are depreciated over the shorter period between the lease period and the useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the asset for use rights reflects that the Entity plans to exercise a purchase option, the asset for use rights will be depreciated over the useful life. Depreciation begins on the start date of the lease.

Assets for rights of use are presented as a separate concept in the consolidated statement of financial position.

The Entity applies IAS 36 to determine if an asset for use rights is impaired and accounts for any impairment loss identified as described in the Property, plant and equipment policy.

Variable income leases that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use rights. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and are included in operating expenses in the consolidated statement of comprehensive income (see Note 23).

The Entity as lessor

As of January 1, 2019, the Entity, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of lease established by IFRS 16.

Classification and valuation of leases under IAS 17, in effect through December 31, 2018

The Entity as lessee

As of December 31, 2018, the classification of leases as finance or operating depended on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were recognized in the consolidated statement of income based on the straight-line method over the lease period.

Leases where the Entity assumes substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination is practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in the current portion of the non-current debt and in the non-current debt, net of finance charges. The interest element of the finance cost was charged to the income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases were depreciated over the shorter of the asset's useful life and the lease term.

The Entity as lessor

Leases for which the Entity is considered a lessor are classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.
Revenues arising from operating leases are recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease are added to the book value of the leased asset and are recognized in a straight line over the term of the lease. Revenues arising from financial leases are recognized as accounts receivable for the amount of the net investment of the Entity in the leases.

s. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are generally recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

t. ***Borrowing cost***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

u. ***Employee benefits***

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).

- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item cost of sales, sales expenses or administrative expenses, according to the level of the personnel to which the cost is related. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing ("PTU")

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statement of loss and other comprehensive loss.

As result of the 2014 Income Tax Law, as of December 31, 2019 and 2018, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

v. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

- *Current tax*

  Current income tax ("ISR") is recognized in the results of the year in which is incurred.

  The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Entity supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

- *Deferred income tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Entity reviewed the Entity's investment property portfolios and concluded that none of the Entity's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of the investment properties, as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

- *Current and deferred tax for the year*

  Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

w. ***Statements of cash flows***

The Entity reports cash flows from operating activities using the indirect method, by means of which the consolidated net income is adjusted for the effects of transactions other than cash; any deferral or past or future accumulation of cash inflows or outflows and income or expense items associated with cash flows from investment or financing activities are also considered.

Interest expense and interest and dividend income are generally classified as financing and investment activities, respectively.

x. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

y. ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the normal course of operations, which occurs when control has been transferred to customers in exchange for the consideration to which the Entity considers, have the right to change said goods or services.

The Entity recognizes income according to the following:

- *Sale of goods - Commercial segment*

  The revenues from the sale of goods refers to the sale of all kinds of items of clothing for women, men and children, through commercial chains called "Milano" and "Melody". Revenues are recognized when the control of the goods it has been transferred, which occurs when the goods are delivered to the customers in the points of sale, which coincides with the payment of the price of the transaction and is received immediately.

  Under the standard contractual terms of the Entity, the buyer has the right to return the goods within 15 days after the sale. Due to the low percentage of returns, management recognizes the adjustment to income corresponding to returns at the moment in which these occur in the different points of sale. Likewise, it is considered highly probable that there will not be a significant adjustment in the previously recognized revenue.

- *Sale of goods - Textile Segment*

  Revenue from the sale of goods refers to the variety of yarns and fabrics of all kinds of natural and artificial fibers, including yarn, denim and non-denim, as well as clothing for the home and clothing. Revenues are recognized when the control of the assets has been transferred to the clients in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods.

  When control of the goods is not transferred to the customer mainly through export sales, the revenue is not recognized until delivery is made to the customer.

  The Entity has different commercial conditions agreed with each client, depending on the sector of the corresponding product. To reduce the risk when granting credit, the Entity asks its clients for a credit insurance. Additionally, Mexican clients are subjected to a risk analysis where they are requested information on guarantees, payment experience, commercial references verification and credit bureaus. Once the required information is received by the client, the credit is authorized by the Entity's credit committee. The payment terms granted by the Entity range from 60 to 90 days.

- *Sale of goods - International Segment*

  Revenues include the distribution of cloth, garments, and high-quality home decoration products, mainly in the United States, which are given directly to the client at the different points of sale, where the payment for the transaction price is received.

  Additionally, the production and distribution of fabrics for the fashion industry of products that are delivered to the Entity's warehouses or to the Entity's wholesale clients, located in South America, essentially in countries such as Colombia and Nicaragua, for which an account receivable is recognized by the Entity when the goods are delivered to wholesale customers because it represents the point in time in which the right of consideration becomes unconditional, since only the passage of time is required for the payment to be made.

- *Interest income*

  Interest income is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be reliably valued. Interest income is recorded on a periodic basis, with reference to the unpaid balance and the applicable effective interest rate, which is the rate that exactly discounts the estimated cash flows to be received over the expected life of the financial asset and it equals it with the net book value of the financial asset upon initial recognition.

- *Rendering of services*

  Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

  The types of revenues described above comply with the conditions for the recognition of income and include the following:

  - The contract or contracts are identified with the customer.

  - The obligations to be performed in the contract are identified.

  - The transaction price is determined.

  - The transaction price is allocated among the different obligations to be performed in the contract.

  - The revenues are recognized when the Entity fulfills each of the obligations involved.

4. Critical accounting judgments and key sources of estimation uncertainty

To apply the accounting policies, the Entity's Management uses its judgment, estimates, and assumptions regarding certain asset and liability amounts in the consolidated financial statements. The associated estimates and assumptions reflect a quantitative and qualitative analysis based on an understanding of the various businesses that compose the Entity. Actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Amendments to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations, that the management of the Entity has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- ***Significant increase in credit risk***

  As explained in note 6, the Expected Credit Loss "ECL" are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Entity takes into account qualitative and quantitative reasonable and supportable forward-looking information.

- ***Discount rate and lease renewals***

  Management defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. Management participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts´ terms considering their contractual rights and limitations, their business plan, as well as Management's intentions for the use of the underlying asset.

  Management estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate. Management uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, Management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding Entity), or at the level of each subsidiary.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- ***Inventory reserves***

  The factors that the Entity considers in inventory reserves are the sales volumes and movements in the age of the inventories.

- ***Calculation of allowance for credit loss***

  When measuring ECL the Entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

  Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

  Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- ***Property, plant and equipment***

  The Entity reviews useful lives of property, plant and equipment at least once a year, which are defined based on technical studies prepared by internal specialized personnel which also involve external experts. The degree of uncertainty about the estimated useful lives is affected by changes in the market, production volumes and technological developments.

- ***Investment properties***

  The fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate, including factors such as cap and discount rates for the investment properties.

- ***Impairment of non-current assets***

  The carrying value of non-current assets is reviewed for impairment if any situations or changes in circumstances indicate that the carrying value is not recoverable. If there is evidence of impairment, the asset is reviewed to determine if the carrying value exceeds its recoverable amount, in which case the asset is determined to be impaired. When evidence of impairment is identified, the Entity estimates the value in use assigned to its property, plant and equipment, and cash-generating units in the case of certain assets. The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and appropriate discount rate to calculate the present value. The Entity uses cash flow projections of revenue using estimates of market conditions, pricing, and production and sales volumes.

- ***Derivate financial instruments***

  The fair value of financial instruments has been determined by the entity, the information available, in the market, other techniques, valuation, judgment, development, interpretation, fair values, use, assumptions, based on existing market conditions.

- ***Employee retirement benefits***

  Assumptions are used to determine the best estimate of these benefits annually. Such estimates, as well as assumptions, are established jointly with independent actuaries annually. These assumptions include demographic assumptions, the discount rates and expected increases in salaries and future permanence, among others. A change in these assumptions could affect the value of assets liabilities associated with employee benefits and the income statement and other comprehensive income in the period in which such changes occur.

5. Cash and cash equivalents

	2020	2019	2018
Cash	$ 180,085	$ 398,431	$ 416,920
Cash equivalents -			
Investment funds	45	45	132
Money-market funds	262	254	239
Total	$ 180,392	$ 398,730	$ 417,291

6. Accounts receivables

	2020	2019	2018
Trade receivables	$ 1,747,580	$ 2,037,016	$ 2,360,529
Allowance for doubtful accounts	(129,884)	(172,582)	(180,068)
	1,617,696	1,864,434	2,180,461
Sundry debtors	5,717	26,524	79,051
Recoverable income tax	7,886	5,163	1,953
Recoverable value-added tax	108,416	361,148	324,998
Other recoverable tax	490,207	110,986	115,998
	$ 2,229,922	$ 2,368,255	$ 2,702,461

Accounts receivable from customers and wholesalers

The average credit term on the sale of goods is 60 days. The Entity has recognized an allowance for doubtful accounts for 4.88% of all accounts receivable with an aging of 91 days or more, due to the fact that due to prior experience, accounts receivable due more than 91 days are not recovered. For accounts receivable that are between 31 and 90 days old, an allowance is recognized for doubtful accounts based on expected loss determined by experiences of default of the counterparty and an analysis of its current financial position.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the limit of credit per client. The limits and ratings attributed to clients are reviewed twice a year. 81% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

Accounts receivable from customers include amounts that are due at the end of the reporting period (see the aging analysis below), but for which the Entity has not recognized any estimates for uncollectible accounts because there has been no significant change in credit quality and amounts (which include accrued interest after the accounts are 60 days) are still considered recoverable.

Age of receivables that are past due but not impaired

A summary of accounts receivable shows customers due, but not yet as impaired:

	2020	2019	2018
1 to 30 days	$ 316,968	$ 315,638	$ 257,394
31 to 60 days	19,529	42,957	43,783
61to 90 days	14,689	8,827	15,510
Over the 90 days	71,081	129,202	71,697
Total	$ 422,267	$ 496,624	$ 388,384

December 31, 2020	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	8.55%	2.11%	3.05%	31.92%	-%
Estimated total gross carrying amount at default	1,099,577	36,874	53,301	557,828	1,747,580
Lifetime ECL	(81,723)	(2,741)	(3,961)	(41,459)	(129,884)

December 31, 2019	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	11.93%	1.62%	0.33%	4.88%	-%
Estimated total gross carrying amount at default	1,856,030	42,957	8,827	129,202	2,037,016
Lifetime ECL	(160,775)	(2,802)	(576)	(8,429)	(172,582)

December 31, 2018	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	5.17%	2.60%	5.76%	58.95%	-%
Estimated total gross carrying amount at default	2,229,539	43,783	15,510	71,697	2,360,529
Lifetime ECL	(135,771)	(1,140)	(894)	(42,263)	(180,068)

The following table shows the movement in lifetime ECL that has been recognized for trade and other receivables in accordance with the simplified approach set out in IFRS 9

	Total
Balances at January 1, 2019	$ (180,068)
Impairment provision	7,486
Balances at December 31, 2019	(172,582)
Impairment provision	42,698
Balances at December 31, 2020	$ (129,884)

As mentioned in Note 6, for the determination of the estimation of doubtful accounts, the Entity performs an aging analysis of balances by client and is assigned based on experience an estimation percentage. This first analysis gives an indication of impairment; Subsequently, an analysis of the financial situation of all the clients included is carried out to determine which are the accounts that present an impairment according to the expected credit loss model and on these the corresponding estimate is recorded.

7. Inventories

	2020	2019	2018
Raw materials and others	$ 470,544	$ 624,138	$ 557,427
Work in progress	465,943	453,915	420,775
Finished goods	1,146,492	1,260,614	1,732,438
Merchandise in stores	-	1,091,466	935,206
	2,082,979	3,430,133	3,645,846
Merchandise in transit	106,683	193,907	321,327
	$ 2,189,662	$ 3,624,040	$ 3,967,173

The Entity estimates possible impairment losses on inventories for obsolescence and for slow moving inventories, which are determined, based on the age of the inventory.

The movements in the allowance for obsolescence and slow moving inventory reduction are presented below:

	2020	2019	2018
Balance at the beginning of the year	$ (99,283)	$ (144,010)	$ (194,512)
Estimation for the period	(6,194)	(78,196)	(92,627)
Cancellations and applications	24,807	122,923	143,129
Sale of segment - Milano	18,130	-	-
Balance at the end of the year	$ (62,540)	$ (99,283)	$ (144,010)

The movements in the allowance for obsolescence are clasificated into finished goods.

The cost of inventories recognized as an expense during the year in respect of continuing operations was $8,275,054, $9,571,646 and $8,565,021 for the years ended December 31, 2020, 2019 and 2018, respectively.

8. Property, plant and equipment

Reconciliation of beginning and ending balances at December 31, 2020, 2019 and 2018, is as follows:

	Balance as of January 1, 2020	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2020
Investment:						
Land	$ 2,657,533	$ 1,771	$ -	$ (3,550)	$ 18,932	$ 2,674,686
Building and installations	5,637,000	6,515	(6,890)	(2,286)	16,304	5,650,643
Industrial machinery and equipment	32,742,583	58,746	(27,858)	35,148	17,006	32,825,625
Office furniture and equipment	742,303	2,234	(2,150)	-	4,576	746,963
Transportation equipment	97,689	632	(4,224)	(667)	167	93,597
Computer equipment	465,332	10,573	(3,252)	(3,727)	7,263	476,189
Water treatment plants	17,885	-	-	-	-	17,885
Transfers available for sale [1]	-	-	-	(2,633,643)	-	(2,633,643)
Projects-in-progress	725,161	232,395	(34)	(24,918)	(25,021)	918,245
Total investments	43,085,486	312,866	(44,408)	(2,633,643)	39,227	40,770,190
Depreciation:						
Building and installations	(3,248,606)	$ (89,104)	$ -	$ (113,099)	$ (5,727)	$ (3,467,198)
Industrial machinery and equipment	(28,447,820)	(355,085)	8,588	269	(1,183)	(28,795,231)
Office furniture and equipment	(550,354)	(9,636)	-	67,949	(2,584)	(494,625)
Transportation equipment	(82,021)	(5,924)	4,141	8,762	(97)	(75,139)
Computer equipment	(412,206)	(19,109)	3,112	36,119	(4,895)	(396,979)
Water treatment plants	(14,972)	(654)	-	-	-	(15,626)
Transfers available for sale [1]	-	-	-	1,923,350	-	1,923,350
Total accumulated depreciation	(32,755,979)	(479,512)	15,841	1,923,350	(14,486)	(31,321,448)
Investment net	$ 10,329,507	$ (166,646)	$ (28,567)	$ (710,293)	$ 24,741	$ 9,448,742

	Balance as of January 1, 2019	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2019
Investment:						
Land	$ 2,837,769	$ 11,239	$ -	$ 10,437	$ (201,912)	$ 2,657,533
Building and installations	5,581,067	15,306	(7,577)	126,520	(78,316)	5,637,000
Industrial machinery and equipment	32,743,901	18,748	(78,008)	89,226	(31,284)	32,742,583
Office furniture and equipment	738,421	7,492	(3,264)	3,075	(3,421)	742,303
Transportation equipment	273,216	7,090	(174,988)	363	(7,992)	97,689
Computer equipment	493,226	54,005	(73,965)	847	(8,781)	465,332
Water treatment plants	17,885	-	-	-	-	17,885
Projects-in-progress	733,801	282,139	(37,434)	(230,468)	(22,877)	725,161
Total investments	43,419,286	396,019	(375,236)	-	(354,583)	43,085,486
Depreciation:						
Building and installations	$ (3,121,416)	$ (137,946)	$ 4,054	$ -	$ 6,702	(3,248,606)
Industrial machinery and equipment	(28,151,051)	(382,564)	68,514	-	17,281	(28,447,820)
Office furniture and equipment	(528,546)	(28,180)	2,693	-	3,679	(550,354)
Transportation equipment	(148,316)	(26,786)	89,164	-	3,917	(82,021)
Computer equipment	(418,514)	(50,866)	50,036	-	7,138	(412,206)
Water treatment plants	(14,542)	(578)	-	-	148	(14,972)
Total accumulated depreciation [1]	(32,382,385)	(626,920)	214,461	-	38,865	(32,755,979)
Investment net	$ 11,036,901	$ (230,901)	$ (160,775)	$ -	$ (315,718)	$ 10,329,507

	Balance as of January 1, 2018 (as restated)	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2018 (as restated)
Investment:						
Land	$ 3,030,693	$ 50,738	$ -	$ -	$ (243,662)	$ 2,837,769
Building and installations	5,500,690	58,722	(7,421)	82,517	(53,441)	5,581,067
Industrial machinery and equipment	32,674,948	45,378	(2,659)	93,733	(67,499)	32,743,901
Office furniture and equipment	690,004	1,705	(2,682)	49,786	(392)	738,421
Transportation equipment	272,738	6,123	(6,294)	2,069	(1,420)	273,216
Computer equipment	446,944	7,312	(7,585)	54,833	(8,278)	493,226
Water treatment plants	17,885	-	-	-	-	17,885
Projects-in-progress	675,098	344,068	-	(282,938)	(2,427)	733,801
Total investments	43,309,000	514,046	(26,641)	-	(377,119)	43,419,286

	Balance as of January 1, 2018 (as restated)	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2018 (as restated)
Depreciation:						
Building and installations	$ (2,982,339)	$ (149,676)	$ 5,658	$ -	$ 4,941	$ (3,121,416)
Industrial machinery and equipment	(27,739,907)	(426,534)	1,395	-	13,995	(28,151,051)
Office furniture and equipment	(502,686)	(28,582)	2,048	-	674	(528,546)
Transportation equipment	(128,844)	(25,807)	5,868	-	467	(148,316)
Computer equipment	(394,170)	(38,826)	7,397	-	7,085	(418,514)
Water treatment plants	(14,151)	(625)	-	-	234	(14,542)
Total accumulated depreciation [(1)]	(31,762,097)	(670,050)	22,366	-	27,396	(32,382,385)
Investment net	$ 11,546,903	$ (156,004)	$ (4,275)	$ -	$ (349,723)	$ 11,036,901

(1) The balances of Property, plant and equipment have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

9. Investment properties

Fair value of investment properties is as follows:

	2020	2019	2018
Land	$ 1,344,814	$ 1,585,750	$ 1,504,019
Building and installations	222,243	220,441	232,955
Total	$ 1,567,057	$ 1,806,191	$ 1,736,974

The fair value of investment properties is determined by independent appraisers who have applied the market approach and the residual method to determine the valuation of land and the replacement method for buildings and installations. The method used is as follows:

a. The market approach was determined by examining the supply and demand of similar land, operations performed and valuations in the sector and similar areas, the study of land values with comparable properties considering, potential development and localization, and consulting the database of the Market Estate Association (Colombian rated entity).

b. The residual method was applied by estimating the value that a builder who develops a project, in the light of existing regulations and taking into account market factors, would be willing to pay.

c. The Herwet table is used to establish a market factor, setting the coefficients of supply and demand according to the criteria of the appraisal committee of the Market Estate Association, for this type of land.

d. The replacement method is based on the cost of building an asset with similar characteristics, considering actual physical conditions of the asset.

The movements presented in investment properties are as follows:

	Balances as of January 1, 2020	Fair value adjustment	Translation effect	Balances as of December 31, 2020
Land	$ 1,585,750	$ (258,950)	$ 18,014	$ 1,344,814
Building and installations	220,441	(691)	2,493	222,243
Total	$ 1,806,191	$ (259,641)	$ 20,507	$ 1,567,057

	Balances as of January 1, 2019	Fair value adjustment	Translation effect	Balances as of December 31, 2019
Land	$ 1,504,019	$ 139,712	$ (57,981)	$ 1,585,750
Building and installations	232,955	18,230	(30,744)	220,441
Total	$ 1,736,974	$ 157,942	$ (88,725)	$ 1,806,191

	Balances as of January 1, 2018	Fair value adjustment	Translation effect	Balances as of December 31, 2018
Land	$ 1,519,424	$ 108,846	$ (124,251)	$ 1,504,019
Building and installations	251,679	1,856	(20,580)	232,955
Total	$ 1,771,103	$ 110,702	$ (144,831)	$ 1,736,974

The lease income generated by investment properties in 2020, 2019 and 2018 were $27,834, $134,777 and $13,551, respectively. To keep the investment properties in working condition, improvements and maintenance were necessary, resulting in expenditures of $1,523, $1,830 and $1,215 in 2020, 2019 and 2018, respectively.

10. Right-of-use asset

The Entity leases various assets, including real estate, plant and equipment, technology equipment and transportation equipment. The average lease term is 15 years.

The Entity has the option to purchase certain manufacturing equipment for a nominal amount at the end of the lease period. The Entity's obligations are insured by the lessor's title to the assets leased in said leases.

	Building	Shops	Total
Cost:			
Balances as of January 1, 2020	$ 855,097	$ 2,986,390	$ 3,841,487
Updates	-	3,795	3,795
Acquisitions	-	52,546	52,546
Transfers to available for sale	-	(2,986,390)	(2,986,390)
Balances as of December 31, 2020	$ 855,097	$ 56,341	$ 911,438
Accumulated depreciation:			
Balances as of January 1, 2020	$ (98,333)	$ (200,805)	$ (299,138)
Depreciation	(106,257)	(4,512)	(110,769)
Disposals	-	-	-
Transfers to available for sale	-	200,805	200,805
Balances as of December 31, 2020	$ (204,590)	$ (4,512)	$ (209,102)
	$ 650,507	$ 51,829	$ 702,336

	Building	Shops	Total
Cost:			
Balances as of January 1, 2019	$ -	$ -	$ -
Initial adoption of IFRS 16	$ 855,097	$ 2,986,390	$ 3,841,487
Acquisitions	-	-	-
Balances as of December 31, 2019	$ 855,097	$ 2,986,390	$ 3,841,487
Accumulated depreciation:			
Balances as of January, 2019	$ -	$ -	$ -
Depreciation	(98,333)	(200,805)	(299,138)
Disposals	-	-	-
Balances as of December 31, 2019	$ (98,333)	$ (200,805)	$ (299,138)
	$ 756,764	$ 2,785,585	$ 3,542,349

Amounts recognized as expenses in results:

	2020	2019
Depreciation right-of-use asset	$ 323,245	$ 299,138
Interest on lease liability	296,931	343,545
Short-term leases	173,297	57,566

Total cash outflows for leases amounted to$707,452 and $551,346 in 2020 and 2019, respectively.

The discount rates used by Management to determine the right-of-use asset are as follows:

Building	10.80% and 7.23%
Shops	10.00%

11. Derivative financial instruments

The objective of entering into contracts with derivative financial instruments is: (1) to partially hedge financial risks from exposures in the exchange rate; or (2) the expectation of a good financial performance, originated by the component of the underlying. The decision to take economic or financial coverage, obeys to the market conditions, in the expectation that it will be held at a certain date, and the Mexican and international economic context of the economic indicators that influence the operations of the Entity.

The transactions carried out with the different financial instruments of interest rates and exchange rates as of December 31, 2020, 2019 and 2018 are summarized below:

	2020	2019	2018
Financial assets carried at fair value through profit or loss			
Held for trading derivatives that are not designated in hedge accounting relationships	$ -	$ 67	$ 5,130

		Notional			Valuation at fair value as of December 31 2020	
Instrument	**Intentionality**	**Amount**	**Unit**	**Maturity**	**Asset**	**Loss in results**
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2020	$ -	$ (11,175)

		Notional			Valuation at fair value as of December 31 2019	
Instrument	**Intentionality**	**Amount**	**Unit**	**Maturity**	**Asset**	**Loss in results**
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2019	$ 67	$ 21,526

		Notional			Valuation at fair value as of December 31 2018	
Instrument	**Intentionality**	**Amount**	**Unit**	**Maturity**	**Asset**	**(Gain) in results**
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2018	$ 5,130	$ 96,503

The Entity has derivative financial instruments to manage its exposure to foreign exchange rate risks for an amount of USD 120 million through a foreign exchange forward and option contract.

12. Other assets

	2020	2019	2018
Goodwill	$ -	$ 752,483	$ 752,483
Brands	-	623,876	623,876
	-	1,376,359	1,376,359
Development in stores	-	94,129	94,129
Accumulated amortization	-	(94,129)	(94,129)
	-	-	-
Guarantee deposits	7,468	47,461	45,134
Other	6,992	24,748	34,112
Other permanent investments	10,039	13,008	11,980
	24,499	85,217	91,226
Total	$ 24,499	$ 1,461,576	$ 1,467,585

The balances of goodwill, brands and development in stores have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

13. Bank loans

As of December 31, 2020, 2019 and 2018, banks loans consist of the following:

Bank	Type	Currency	Rate	Period	2020	2019	2018
Fondo Escalonado por compartimientos BTG Pactual Crédito	Simple credit	Colombian Peso	12.9% Effective Annual rate (EA)	1 year	$ -	$ 55,549	$ 79,588
Mercado y Bolsa, S.A.	Simple credit	Colombian Peso	14.44% Effective Annual rate (EA)		-	50,876	-
Banco Lafise Bancentro, S.A.	Revolving	US dollars	7.50%	60 days	-	-	14,191
Bursátiles Ganaderos de Colombia S.A.	Simple Credit	Colombian Peso	16.27% EA	2019	-	-	6,441
					$ -	$ 106,425	$ 100,220

14. Long-term debt

As of December 31, 2020, 2019 and 2018, long-term debt consists of the following:

Bank	Type	Currency	Rate	Maturity	2020	2019	2018
Senior Notes (a)	Offering Notes	US dollars	8.875%	2022	$ 6,383,584	$ 6,030,464	$ 6,298,528
BNP Paribas Fortis Bank SA/ NV	Simple credit	US dollars	LIBOR plus 2.47%	2022	76,973	130,887	197,462
Banco Santander	Simple credit	US dollars	LIBOR, plus 4.05%	2021	35,179	49,439	85,488
Banco Colpatria Red Multibanca	Simple credit	Colombian pesos	11.91% EA	2020	-	5,310	39,504
Other	-	-	-	-	-	-	33,837
					6,495,736	6,216,100	6,654,819
			Less - Current portion of long-term debt		112,152	180,326	282,950
			Less - Current portion of debt issuance expenses		(30,808)	(28,093)	(23,262)
			Current portion of long term debt, net		81,344	152,233	259,688
			Long - term debt		6,383,584	6,035,774	6,369,514
			Less- debt issuance costs		(10,832)	(41,640)	(69,730)
			Long-term debt, net		$ 6,372,752	$ 5,994,134	$ 6,299,784

a. Notes for US $320 million, accruing interest at a fixed rate of 8.875%, issued in April 2017, and maturing in April 2022. Accrues interest every 180 days in the months of April and October. Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Milano Inmobiliaria, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V. Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V., Grupo Milano, S.A. de C.V., Milano Operadora, S.A. de C.V., Milano Representaciones, S.A. de C.V., Milano Servicios Corporativos, S.A. de C.V., Kaltex Internacional, S.A. de C.V., Kaltex America, Inc. and Revman International, Inc.

b. Most of these loans are guaranteed by accounts receivables, inventories, property, plant and equipment owned by the Entity and its subsidiaries.

c. Long-term debt maturities as of December 31, 2020 are as follows:

Year	2020
2021	$ 112,152
2022	6,383,584
	$ 6,495,736

d. The Entity has certain obligations and restrictions in the credit agreements, some of which at December 31, 2019 were not met, including: leverage, financial debt, stockholders' equity and liquidity ratios. The most important are:

A. Maintain stockholders' equity of no less than $4,674,000;
B. Maintain a debt to EBITDA no less than 4.5.
C. Maintain a consolidated interest coverage ratio of no greater than 3.0.
D. Maintain a debt to equity no less than 1.0.

e. The Entity as of December 31, 2020, 2019 and 2018 defaulted on these obligations; the long-term debt for $112,152, $180,326 and $282,950 was reclassified as a current liability.

f. *Reconciliation of liabilities arising from financing activities*

The table below details changes in the Entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Entity's consolidated statement of cash flows as cash flows from financing activities.

	As of January 1, 2020	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2020
Bank loans (Note 13 and 14)	$ 6,252,792	$ 101,876	$ (68,164)	$ 167,592	$ 6,454,096
Loans from related parties (Note 22)	1,582,619	13,000	(127,433)	126,205	1,594,391
	$ 7,835,411	$ 114,876	$ (195,597)	$ 293,797	$ 8,048,487

	As of January 1, 2019	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2019
Bank loans (Note 13 and 14)	$ 6,659,692	$ 277,002	$ (145,684)	$ (538,218)	$ 6,252,792
Loans from related parties (Note 22)	1,530,591	-	-	52,028	1,582,619
	$ 8,190,283	$ 277,002	$ (145,684)	$ (486,190)	$ 7,835,411

	As of January 1, 2018	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2018
Bank loans (Note 13 and 14)	$ 7,057,225	$ 655,135	$ (1,278,831)	$ 226,163	$ 6,659,692
Loans from related parties (Note 22)	1,128,777	562,114	-	(160,300)	1,530,591
	$ 8,186,002	$ 1,217,249	$ (1,278,831)	$ 65,863	$ 8,190,283

(i) Other changes include exchange fluctuation and expenses associated with issuance costs recognized in accordance with the effective cost method.

15. Lease liability

	2020	2019
Maturity analysis:		
Year 1	$ 71,998	$ 470,826
Year 2	72,053	459,537
Year 3	72,005	460,410
Year 4	31,649	461,335
Year 5	-	391,302
Onwards	456,684	3,993,165
	704,389	6,236,575
Less: unearned interest	(28,341)	(2,602,889)
	$ 676,048	$ 3,633,686
Analyzed as:		
Current	$ 78,232	$ 169,615
Non-current	597,816	3,464,071
	$ 676,048	$ 3,633,686

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury Department.

16. Other accounts payable and accrued liabilities

Balances as of December 31, are as follows:

	2020	2019	2018
Payables for services	$ 707,758	$ 401,316	$ 440,868
Payables for machinery	152,435	62,336	142,446
Provisions (i)	117,859	154,333	195,915
Other taxes payable	710,277	554,690	453,812
Interest payable	254,928	251,896	182,637
	$ 1,943,257	$ 1,424,571	$ 1,415,678

(i) Provisions represent amounts accrued during 2020, 2019 and 2018, or contracted services of the following nature, attributable the financial year, which are expected to be paid within a period not exceeding one year. The final amounts to be paid and the timing of those outflows of economic resources involve uncertainties and could therefore vary.

	2020			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 46,954	$ 8,100	$ (9,336)	$ 45,718
Labor provision	39,547	6,876	(7,452)	38,971
Other	67,832	101,534	(136,196)	33,170
	$ 154,333	$ 116,510	$ (152,984)	$ 117,859

	2019			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 48,550	$ 7,638	$ (9,234)	$ 46,954
Labor provision	39,763	7,217	(7,433)	39,547
Other	107,602	72,534	(112,304)	67,832
	$ 195,915	$ 87,389	$ (128,971)	$ 154,333

	2018			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 50,023	$ 7,984	$ (9,457)	$ 48,550
Labor provision	39,557	7,433	(7,227)	39,763
Other	138,306	72,136	(102,840)	107,602
	$ 227,886	$ 87,553	$ (119,524)	$ 195,915

17. Retirement employee benefits

Defined benefit plans

The Entity handles a plan that covers seniority premiums, which consist of a single payment of 12 days per every year worked based on final salary, limited to twice the minimum wage established by law year. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the projected unit credit method.

The plans typically expose the Entity to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance Entity.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2020 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2020 %	2019 %	2018 %
Discount rate	7.17	7.25	9.25
Expected rate of salary increase	4.75	4.75	4.75
Inflation rate	3.75	3.75	3.75

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows.

	2020	2019	2018
Service cost:			
Labor cost of current service	$ 23,707	$ 21,942	$ 2,525
Net interest expense	30,274	32,341	24,112
Components of defined benefit costs recognized in profit or loss	$ 53,981	$ 54,283	$ 26,637
Remeasurement on the net defined benefit liability:			
Actuarial losses arising from changes in demographic assumptions	$ -	$ 3,625	$ 156
Actuarial losses and (gains) arising from changes in financial assumptions	(3,590)	55,479	(41,548)
Components of defined benefit costs recognized in other comprehensive income	$ (3,590)	$ 59,104	$ (41,392)

Components of defined benefit costs recognized in other comprehensive income:

	2020	2019	2018
Remeasurement on the net defined benefit liability	$ (3,590)	$ 59,104	$ (41,392)
Deferred tax	1,076	(17,732)	12,418
Components of defined benefit costs recognized in other comprehensive income	$ (2,514)	$ 41,372	$ (28,974)

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss and other comprehensive loss within administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive loss.

The amount included in the consolidated statements of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2020	2019	2018
Present value of funded defined benefit obligation	$ 577,539	$ 545,617	$ 442,591

Movements in the present value of the defined benefit obligation in the current year were as follows.

	2020	2019	2018
Opening defined benefit obligation	$ (545,617)	$ (442,591)	$ (487,542)
Current service cost	(23,707)	(21,942)	(2,525)
Interest cost	(30,274)	(32,341)	(24,112)
Remeasurement gains (losses)	4,059	(59,104)	41,392
Reduction effect in the obligations	(105)	-	3,299
Benefits paid	4,078	10,361	26,897
Transfers available for sale	14,027	-	-
Closing defined benefit obligation	$ (577,539)	$ (545,617)	$ (442,591)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate were 100 basis points higher (lower), the defined benefit obligation would have decreased by $38,076 (increased by $32,848).

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would not have significant changes.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

18. Financial instruments

The Entity is exposed to market risks such as interest rate risk and foreign currency risk, as well as credit risk and liquidity risk, all of which are managed centrally by the corporate treasury. Compliance with these policies and exposure limits are reviewed by internal audit on an ongoing basis.

a. ***Classes of financial instruments***

The different categories of financial instruments and their amounts as of December 31, 2020, 2019 and 2018 are shown below:

	2020	2019	2018
Financial assets			
Cash and cash equivalents	$ 180,392	$ 398,730	$ 417,291
Accounts receivable, net	1,617,696	1,864,434	2,180,461
Accounts receivable from related parties	228,528	127,745	88,360
At fair value:			
Derivate financial instruments	-	67	5,130

	2020	2019	2018
Financial liabilities			
At amortized cost:			
Bank loans, current and long-term debt	$ 6,454,096	$ 6,252,792	$ 6,659,692
Accounts payable to suppliers	1,932,882	3,097,864	3,387,163
Accounts payable to related parties	3,677,231	3,585,060	2,555,235
Other accounts payable and accrued liabilities	1,943,257	1,424,571	1,415,678

b. ***Management of capital risk***

The Entity manages its capital to ensure that it will continue as an ongoing business, while also maximizing the return to its shareholders through optimization of its capital balance through continuous monitoring of the debt/capital structure. The Entity's capital structure consists of net debt (bank loans as detailed in Note 13 and 14) and the Entity's equity (comprising issued contributed capital, reserves and deficit accumulated in Note 20). The Entity is not subject to any externally imposed capital requirements.

The Entity's management reviews its capital structure and borrowing costs and their relation to EBITDA (earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization) on a monthly basis, at the time it presents financial projections as part of the business plan to the Board of Directors and shareholders of Entity.

The rate of net indebtedness of the Entity is as follows:

	2020	2019	2018
Debt with financial institutions	$ 6,454,096	$ 6,252,792	$ 6,659,692
Cash and cash equivalents	(180,392)	(398,730)	(417,291)
Net debt with financial institutions	$ 6,273,704	$ 5,854,062	$ 6,242,401
EBITDA	$ 933,913	$ 1,865,234	$ 1,261,712
Net debt to EBITDA	6.72	3.14	4.95
EBITDA	$ 933,913	$ 1,865,234	$ 1,261,712
Interest incurred on debt	$ 1,023,497	$ 1,073,654	$ 926,074
Interest coverage index	1.10	1.74	1.36

c. ***Financial risk management objectives***

The Entity Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

ii) ***Foreign currency risk management***

The functional currency of the majority of the subsidiaries of the Entity is the Mexican peso. The Entity is exposed to foreign exchange risk related to the Mexican peso as a result of financing obtained in U.S. dollars.

The Entity also has monetary assets and liabilities denominated in foreign currencies, mainly the US dollar, Euro, Nicaraguan Cordoba, Colombian peso and Swiss Franc, which exposes it to currency risk. However, this risk is hedged by the operations of the Entity in those respective countries.

Carrying values of assets and liabilities denominated in foreign currencies to which the Entity is mainly exposed are as follows (in thousands):

	Liabilities			Assets		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
U.S. Dollar	681,807	681,733	652,497	117,699	272,853	130,813
Euro	3,289	2,759	11,856	4,670	6,764	987
Colombian peso	72,229,229	83,856,264	60,787,986	10,068,146	31,915,214	42,283,230

The following table details the Entity's sensitivity to an increase and decrease of 10% in pesos against the relevant foreign currencies. The 10% is the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period for a 10% change in exchange rates. A positive number (as shown in the table below) indicates an increase in the results where the peso is strengthened by 10% against the relevant currency. If a weakening of 10% of the peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative (amounts in thousands):

	2020	**2019**	**2018**
U.S. Dollar	1,125,322	770,543	1,026,825
Euro	33,640	8,481	24,497
Colombian peso	32,793	27,095	10,173

Exchange rates	2020	2019	2018	August 26, 2021
U.S. Dollar	$ 19.9487	$ 18.8452	$ 19.6829	$ 20.3522
Euro	$ 24.3593	$ 21.1751	$ 22.5383	$ 23.9657
Colombian peso	$ 172.3250	$ 166.4850	$ 165.3715	$ 190.2250

ii) ***Interest rate risk management***

The Entity is exposed to interest rate risk because it has financial debt that accrues interest at variable rates. The Entity has short-term loans mainly for working capital as well as long-term loans for certain projects, the proceeds of which will be used to pay the related debt. Hedging activities are evaluated regularly to align with interest rates and defined risks, ensuring the most cost-effective hedging strategies are applied.

Exposure of the Entity to interest rate risk relates primarily to the LIBOR on financial liabilities. Sensitivity analyses are prepared by the Entity based on the net exposure to floating interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, net income (loss) ended December 31, 2020, 2019 and 2018, would increase/decrease $4,503 and $4,503, respectively.

e. ***Credit risk management***

The note 6 details the Entity's maximum exposure to credit risk and the measurement bases used to determine ECL.

In order to minimize credit risk, the Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Entity uses other publicly available financial information and its own trading records to rate its major customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Before accepting any new customer, a dedicated team responsible for the determination of credit limits uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and approved twice a year by the risk management committee. The 80% of the trade receivables have the best credit scoring attributable under the external credit scoring system used by the Entity.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Entity reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Entity consider that the Entity's credit risk is significantly reduced. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

(i) ***Overview of the Entity's exposure to credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. As at December 31, 2020 the Entity maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Entity due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Entity arises from:

- The carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the accumulated value of the completed transactions is distributed among the approved counterparties. The credit exposure is controlled by the counterparty limits that are reviewed and approved by the Entity Credit Committee.

Accounts receivable from customers are composed of a large number of clients distributed through different industries and geographic areas. Before granting credit to any client, a financial evaluation is performed and credit references are requested; finally, the continuous evaluation of the credit is made on the financial condition of the accounts receivable, when appropriate. The Entity considers that its potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of expected credit losses due to impairment with respect to accounts receivable (see Note 6).

The Entity's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Entity has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Entity's financial assets, contract assets and financial guarantee contracts, as well as the Entity's maximum exposure to credit risk by credit risk rating grades:

December 31, 2020	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	1,792,045	(135,384)	1,656,661
Sundry debtors	Performing	12-month	15,848	-	15,848
Accounts receivable from related parties	Performing	12-month	228,528	-	228,528

December 31, 2019	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	2,037,016	(172,582)	1,864,434
Sundry debtors	Performing	12-month	26,524	-	26,524
Accounts receivable from related parties	Performing	12-month	127,745	-	127,745

December 31, 2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	2,360,529	(180,068)	2,180,461
Sundry debtors	Performing	12-month	79,051	-	79,051
Accounts receivable from related parties	Performing	12-month	88,360	-	88,360

f. For trade receivables, the Entity has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Entity determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

g. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

The following tables detail the Entity's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

As of December 31, 2020	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.43%	$ 198,634	$ 6,398,979	$ -	$ 6,597,613
Interest payable		568,811	290,556	-	859,367
Accounts payable to suppliers	-	1,932,882	-	-	1,932,882
Due to related parties	-	401,238	3,275,993	-	3,677,231
Lease liability	-	78,232	566,167	31,649	676,048
Other financial liabilities	-	860,193	-	-	860,193
Total		$ 4,039,990	$ 10,531,695	$ 31,649	$ 13,743,141

As of December 31, 2019	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.33%	$ 1,390,866	$ 6,927,349	$ -	$ 8,318,215
Interest payable		519,497	802,805	-	1,322,302
Accounts payable to suppliers	-	3,097,864	-	-	3,097,864
Due to related parties	-	1,665,833	1,919,227	-	3,585,060
Lease liability	-	169,615	1,381,282	2,082,789	3,633,686
Other financial liabilities	-	463,652	-	-	463,652
Total		$ 7,307,327	$ 11,030,663	$ 2,082,789	$ 20,420,779

As of December 31, 2018 (as restated)	Weighted average effective interest Rate	1 year	1 - 3 year	more than 3 years	Total
Bank loans and long term - debt	8.52%	$ 1,225,066	$ 7,934,476	$ -	$ 9,159,542
Interest payable		462,134	838,492	-	1,300,626
Accounts payable to suppliers	-	3,387,163	-	-	3,387,163
Due to related parties	-	1,612,126	943,109	-	2,555,235
Other financial liabilities	-	583,314	-	-	583,314
Total		$ 7,269,803	$ 9,716,077	$ -	$ 16,985,880

19. Fair value measurements of financial instruments

Except as detailed in the following table, the Entity's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value due to their short-term maturities.

a. The carrying and fair value of long-term debt is as follows as of December 31:

	2020		2019		2018	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Debt	$ 6,454,096	$ 5,040,916	$ 6,252,792	$ 5,129,618	$ 6,659,692	$ 6,653,236

b. Fair value hierarchy

There are no significant financial instruments that are measured at fair value subsequent to initial recognition. However, the fair value of financial instruments measured at amortized cost is presented in the table above. A description on the extent to which the fair value is observable below:

- Level 1 are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfers between Level 1, 2 and 3.

The fair value of long-term debt is calculated using a discounted cash flow method with an approximated market rate of the current debt cost based on comparable information in the market for entities with a similar risk profile. The level of fair value calculation is level 2.

20. Stockholders' equity

a. As of December 31, 2020, 2019 and 2018, capital stock is represented by:

	Number of shares		Amount	
Fixed portion:				
Series "A"	50,000	50,000	$ 50	$ 50
Variable portion:				
Series "B"	4,017,940,410	4,017,940,410	4,017,940	4,017,940
Total	4,017,990,410	4,017,990,410	$ 4,017,990	$ 4,017,990

Capital stock consists of common registered shares with a par value of one peso per share. Shares of Series "A" can be acquired only by Mexican citizens. Variable capital is unlimited.

At the Ordinary General Stockholders' Meeting held on March 29, 2019, a dividend payment of $141,200 was approved, which was applied to retained earnings. The dividend was paid as of December 31, 2019.

b. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved. As of December 31, 2019 and 2018, the Entity has not created this reserve.

c. Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the stockholders' equity tax accounts as of December 31, are as follows:

	2020	2019	2018
Contributed capital account	$ 7,764,932	$ 7,527,569	$ 7,320,723
Net account tax profit at the end 2013 (CUFIN)	894,280	858,183	832,220
Total	$ 8,659,212	$ 8,385,752	$ 8,152,943

21. Equity and earnings of non-controlling interest

a. The following table lists the subsidiaries in which a significant non-controlling interest exists. The amounts shown as of December 31, 2020, 2019 and 2018, are presented before eliminations:

		Proportion of the non-controlling interests with voting rights			Income of the period allocated to non-controlling interests			Equity of non-controlling interests		
Subsidiary	Location	2020	2019	2018	2020	2019	2018	2020	2019	2018
Coltejer, S.A.	Colombia	39.74%	39.74%	39.74%	$ (444,403)	$ (58,429)	$ (76,586)	$ 600,649	$ 1,057,515	$ 1,235,267
Kaltex Textiles, S.A. de C.V.	Mexico	26.30%	26.30%	26.30%	(105,278)	(36,134)	(75,566)	730,927	876,102	881,265
Grupo Milano, S.A. de C.V.	Mexico	- %	- %	28.00%	-	-	26,423	-	-	642,532
Total					$ (549,681)	$ (94,563)	$ (125,729)	$ 1,331,576	$ 1,933,617	$ 2,759,064

(i) On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary of Kaltex) signed an agreement to purchase shares that represented 28% of the non-controlling interest of Grupo Milano, S.A. de C.V. for US $52.

(ii) Coltejer, S.A. is a subsidiary of Kaltex International

b. Subsidiaries' condensed financial statements in which a material non-controlling interest exists:

	2020	2019	January 1, 2018
Coltejer, S.A.:			
Total assets	$ 6,715,823	$ 5,988,627	$ 5,754,899
Total liabilities	$ 4,001,631	$ 3,327,543	$ 2,646,528
Net assets	$ 2,714,192	$ 2,661,084	$ 3,108,371
Total revenues	$ 432,400	$ 832,416	$ 940,054
Net loss of the year	$ (276,381)	$ (147,028)	$ (192,717)
Kaltex Textiles, S.A. de C.V.:			
Total assets	$ 13,200,577	$ 13,908,240	$ 13,427,388
Total liabilities	$ 10,407,719	$ 10,472,974	$ 10,076,569
Net assets	$ 2,792,858	$ 3,331,185	$ 3,350,819
Total revenues	$ 8,198,614	$ 11,140,628	$ 11,555,793
Net loss of the year	$ (400,297)	$ (137,392)	$ (287,325)
Grupo Milano, S.A. de C.V.:			
Total assets	$ -	$ -	$ 3,871,388
Total liabilities	$ -	$ -	$ 1,400,112
Net assets	$ -	$ -	$ 2,471,276
Total revenues	$ -	$ -	$ 3,954,281
Net income of the year	$ -	$ -	$ 101,628

22. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

a. Balances to related parties are as follows:

	2020	2019	2018
Accounts receivable -			
Grupo MCM, S.A. de C.V.	$ 224,318	$ 100,113	$ 75,778
Inmobiliaria Emilio Castelar, S.A. de C.V.	-	24,499	-
Soluciones Financieras CCK, S.A. de C.V. SOFOM	1,409	1,409	1,409
Operadora Circulo CCK, S.A. de C.V.	2,088	728	-
Inmobiliaria Circulo CCK, S.A. de C.V.	671	634	-
Tiendas Extra S.A. de C.V.		289	585
Grupo MCM, S.A.S.	-	-	1,210
Grupo Administración Corporativa, S. C.	-	-	9,066
Other	42	73	312
	$ 228,528	$ 127,745	$ 88,360

	2020	2019	2018
Accounts payable			
Kaltex Inmobiliaria, S.A. de C.V.	$ 225,723	$ 201,944	$ 161,549
Inmobiliaria Los Mejia, S.A. de C.V.	74,005	69,268	42,732
Inmobiliaria Emilio Castelar, S.A. de C.V.	39,028	37,016	34,050
Inmobiliaria Baz Rivera, S.A. de C.V.	19,537	18,452	16,852
Rancho Los Mejias, S.A. de C.V.	21,880	20,650	14,672
Inmobiliaria Barrientos, S.A. de C.V.	13,363	12,621	11,529
Inmobiliaria Mago, S.A. de C.V.	1,101	3,491	9,278
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	6,601	6,237	5,700
	$ 401,238	$ 369,679	$ 296,362
Long-term accounts payable-			
Grupo MCM Colombia, S.A. (1)			
Long-term debt	$ 1,233,825	$ 1,222,298	$ 1,154,253
Interest payable	59,055	73,856	161,511
Grupo MCM, S.A. de C.V. (2)			
Long-term debt	207,865	196,367	205,096
Acquisition of shares	1,038,928	981,458	-
Interest payable	92,338	43,326	9,927
Vigoris, S.A. de C.V. (3)			
Long-term debt	86,777	81,977	85,621
Acquisition of shares	195,130	239,760	263,119
Interest payable	40,172	27,366	15,388
Mosjak, S.A. de C.V. (4)			
Long-term debt	86,777	81,977	85,621
Acquisition of shares	196,162	240,654	264,052
Interest payable	38,964	26,342	14,285
	3,275,993	$ 3,215,381	$ 2,258,873

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful receivables in respect of the amounts owed by related parties.

(1) As of December 31, 2020, 2019 and 2018, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal US $65 million, accruing interests at a rate of 10%, with maturity in 2022.

(2) As of December 31, 2020, 2019 and 2018, the balance payable in the long term to Grupo MCM, S.A. de C.V., is composed of: accounts payable for the acquisition of non-controlling of Grupo Milano for 52 million dollars, accruing interest at a rate of 3.60%, with maturity in 2022, and a loan with principal for US $10.4 million, accruing interest at a rate of 3.10%, with indefinite maturity.

(3) As of December 31, 2020, 2019 and 2018, the long-term balance payable to Vigoris, S.A. de C.V., is composed of a loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million , accruing interest at a rate of 3.10%, with maturity in 2022.

(4) As of December 31, 2020, 2019 and 2018, the long-term balance payable to Mosjak, S.A. de CV, is composed loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with a maturity in 2022.

b. Transactions with related parties, carried out in the ordinary course of business were as follows:

	2020	2019	2018
Revenues -			
Other income	$ 13,527	$ 19,163	$ 31,014
Expenses -			
Lease income	$ 16,442	$ 60,707	$ 51,134
Interest expense	25,471	33,079	17,356

23. Discontinued operations

On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.), whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in June US $40 million and in September US $26. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020, 2019 and 2018 present the results associated with Milano as discontinued operations.

Condensed information related to the consolidated income statement of discontinued operations for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Revenues	$ 2,085,574	$ 3,672,561	$ 3,954,281
Cost of sales	1,331,778	2,312,603	2,491,940
Gross profit	753,796	1,359,958	1,462,341
Selling and administrative expenses	766,898	982,173	1,307,186
Other (income) expenses, net	(82,728)	6,161	38,941
Operating income	69,626	371,624	116,214
Financial expenses, net	286,216	273,018	(9,304)
Foreign exchange loss, net	(7,899)	(3,423)	(457)
(Loss) income before taxes	(208,691)	102,029	125,975
Income tax (benefit) expense	(62,103)	33,012	24,347
Net (loss) income	$ (146,588)	$ 69,017	$ 101,628

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2020
Total current assets	$ 1,557,937
Total non-current assets	5,007,634
Total assets classified as held for sale	$ 6,565,571
Total current liabilities	$ 1,355,798
Total non - current liabilities	2,810,143
Total liabilities classified as held for sale	$ 4,165,941

24. Costs and expenditure by nature

	2020	2019	2018
Cost of sales:			
Wages and salaries	$ 1,148,902	$ 1,260,923	$ 1,276,796
Employee benefits	781,104	838,765	750,975
Profit sharing	30,014	57,787	22,898
Raw material	3,936,347	4,711,469	4,419,518
Manufacturing expenses	106,473	168,224	466,280
Finished goods	881,372	1,818,644	2,571,772
Freight	232,796	275,621	277,008
Maintenance	426,790	530,609	487,971
Leasing	25,534	29,444	78,538
Electricity	742,098	976,228	1,018,411
Fuels and lubricants	390,822	469,083	306,965
Logistics services	100,631	140,206	150,272
Customs charges	51,146	75,734	76,664
Amortization	-	-	1,834
Other	168,118	262,811	353,322
Subtotal	9,022,147	11,615,548	12,259,224
Depreciation and amortization	438,588	457,379	502,009
Depreciation of right-of-use asset	50,439	29,830	-
Total	$ 9,511,174	$ 12,102,757	$ 12,761,233
Selling expenses:			
Wages and salaries	$ 184,674	$ 192,317	$ 174,057
Employee benefits	51,015	58,212	57,687
Profit sharing	3,292	1,381	731
Publicity	-	92,070	60,146
Travel expenses	3,352	19,581	13,528
Insurance	8,326	9,169	7,889
Freight	6,158	4,465	5,390
Fees	6,105	11,355	32,296
Maintenance	4,739	11,324	8,292
Leasing	2,815	3,187	73,523

	2020	2019	2018
Electricity	1,293	70,431	1,459
Water	265	20,769	30,969
Bank commissions	23,758	8,115	4,206
Royalties	204,198	64,006	147,792
Sales commissions	35,242	38,909	52,705
Other	5,813	29,806	6,918
Subtotal	541,045	635,097	677,588
Depreciation and amortization	880	3,011	26,848
Depreciation of right-of-use asset	60,074	68,279	-
Total	$ 601,999	$ 706,387	$ 704,436
Administrative expenses:			
Wages and salaries	$ 303,677	$ 298,695	$ 395,299
Employee benefits	89,120	94,201	73,434
Profit sharing	5,486	3,246	2,800
Travel expenses	3,144	13,389	13,842
Insurance	16,538	14,998	16,027
Freight	-	36,641	30,374
Fees	63,874	87,758	110,639
Maintenance	53,258	48,948	61,877
Leasing	19,598	24,935	23,099
Phone	15,765	13,167	13,993
Electricity	4,150	8,176	8,135
Bank commissions	2,538	2,075	2,032
Other	117,845	32,375	17,225
Subtotal	694,993	678,604	768,776
Depreciation and amortization	40,044	56,776	36,618
Depreciation of right-of-use asset	256	224	-
Total	$ 735,293	$ 735,604	$ 805,394

25. Other expenses (income), net

	2020	2019	2018
Loss on sale of machinery and equipment	$ (27,296)	$ 33,454	$ 1,516
Fair value adjustment of investment properties	283,034	(157,942)	(110,702)
Lease income	53,003	(19,626)	(13,551)
Revenues from sales of waste	(9,694)	(1,334)	(438)
Recovery of insurance	(14,846)	(4,213)	-
Amortization of debt issuance costs	28,093	25,617	23,262
Other expenses (income)	33,823	90,035	(105,767)
	$ 346,117	$ (34,009)	$ (205,680)

26. Income taxes

The Entity and some of its subsidiaries are located in Mexico; certain other subsidiaries are located throughout the United States of America (USA), Colombia and Nicaragua. It is important to mention that although the tax laws and regulations applicable in the different countries may differ considerably, there are similar permanent elements, such as non-deductible and non-taxable items. As a result, the Entity has decided to use the Mexican income tax (ISR) rate of 30% to reconcile its effective tax rate, due to the fact that the majority of the earnings are taxed in Mexico through its direct subsidiary, Kaltex Textiles, S. A. de C. V. and Kaltex Comercial, S.A. de C.V.

Colombia

The Entity calculates income tax based on its presumptive income as defined in the Colombian tax law. The current income tax rate (IRC) is 33%.

Nicaragua

According to Decree No. 46-91 "Ley de Zonas Francas" Art. 20, the Entity has the following tax benefits:

a) 100% exemption from payment of tax on income generated by their activities in the “Zona Franca” (Free Zone) during the first ten years of operation and 60% from the eleventh year.

b) Exemption from payment of tax on sale of property under any title, including the tax on capital gains, if any, provided that the company closed its operations in this area, and the property continues to affect the regime Zona Franca.

c) Exemption from all taxes and customs duties and import-related consumption, applicable to the introduction into the country of raw materials, materials, equipment, machinery, matrix, or spare parts intended to enable the company for its operations in Zona Franca.

d) Exemption from customs duties on transport equipment, other vehicles loading passengers or service intended for normal use of the company in the Zona Franca.

e) Full exemption from excise taxes on sales or selective consumption.

f) Full exemption from municipal taxes.

g) Full exemption from export taxes on processed goods in the Zona Franca.

United States of America

In 2020 and 2019, the Entity was subject to a 21% income tax rate and 34% rate for 2018.

a. ***Income tax recognized in profit or loss***

	2020	2019	2018
ISR:			
Current	$ 218,711	$ 265,319	$ 228,373
Deferred	19,618	(55,072)	(109,604)
Income tax recognized in profit or loss before discontinued operations	$ 238,329	$ 210,247	118,769
Deferred of discontinued operations	62,103	(33,012)	(24,347)
Income tax recognized in profit or loss	$ 300,432	$ 177,235	$ 94,422

Deferred tax recognized in other comprehensive income:

	2020	2019	2018
Actuarial (gain) loss on employee benefits	$ (1,076)	$ (17,732)	$ 12,418

b. ***Deferred tax balances:***

	2020	2019	2018
Deferred income asset:			
Reserves and provisions	$ 135,391	$ 143,334	$ 106,968
Employee benefits	69,626	77,640	57,941
PTU	13,003	13,642	3,171
Lease liability	47,581	27,401	-
Tax loss carryforwards	48,286	91,464	179,920
Customer prepayments	68,515	21,827	33,212
Other	15,949	20,779	5,435
Deferred income tax asset	398,351	396,087	386,647
Deferred income liability:			
Property, plant and equipment	(1,811,559)	(1,532,382)	(1,575,019)
Prepayments	-	(33,826)	(64,241)
Other	(22,741)	(8,058)	1,630
Deferred income liability	(1,834,300)	(1,574,266)	(1,637,630)
Net deferred ISR liability	$ (1,435,949)	$ (1,178,179)	$ (1,250,983)

c. ***Deferred tax in statement of financial position***

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	2020	2019	2018
Deferred income tax asset	$ 384,572	$ 756,074	$ 276,582
Deferred income tax liability	(1,820,521)	(1,934,253)	(1,527,565)
Deferred income tax liability	$ (1,435,949)	$ (1,178,179)	$ (1,250,983)

The movements of deferred tax liabilities during the year are as follows:

	2020	2019	2018
Beginning balance	$ 1,178,179	$ 1,250,983	$ 1,351,720
Initial application of IFRS 9 (Retained earnings)	-	-	(3,551)
Deferred income tax recognized in profit or loss	19,618	(55,072)	(109,604)
Deferred of discontinued operations	239,228	-	-
Deferred income tax recognized in other comprehensive income	(1,076)	(17,732)	12,418
Ending balance	$ 1,435,949	$ 1,178,179	$ 1,250,983

d. Following is a reconciliation of the statutory income tax rate and the effective rate on the income from continuing operations before income taxes:

	2020 %	2019 %	2018 %
Income tax at statutory rate	30	30	30
Add (deduct) the effect of permanent differences:			
Non-deductible items	2	15	5
Adjustment for inflation	(12)	(26)	(18)
Tax losses	(20)	(321)	(43)
Effect of different tax rates and tax bases of operations in other jurisdictions	(18)	(13)	(20)
Discontinued operation and other and	(6)	209	28
Effective rate	(24)	(106)	(18)

e. In determining deferred income taxes as of December 31, 2020, 2019 and 2018, the effects of tax loss carryforwards were included for $247,853, $304,882 and $599,733, respectively. In the determination of deferred income taxes as of December 31, 2020 and 2019, the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to $26,070 and $1,136, respectively, as Management believes it is unlikely that the benefits of such losses will be realized.

Year of Expiration	Tax loss Expiration
2022	$ 26,019
2023	25,189
2024	120,480
2025	35,692
2026	39,337
2028	1,136
	$ 247,853

27. Contingencies

At the date of these consolidated financial statements, the Entity has legal proceedings pending before the competent authorities, mainly related to foreign trade operations related to the recovery of accounts receivable and labor lawsuits.

The estimated amount of these lawsuits at December 31, 2020, 2019 and 2018 is $99,710, $96,942 and $95,137, respectively, of which there is a liability recorded of $6,000, $13,303 and $9,106, respectively, which represents the Entity's best estimate of probable cash outflows should it receive an unfavorable decision in these legal proceedings. These amounts have been included under the labor provision heading in the consolidated statement of financial position. The Entity has made payments of $2,929, $15,905 and $22,650 during 2020, 2019 and 2018, respectively related to these matters. While the results of these legal proceedings cannot be predicted with certainty, management of the Entity does not believe there is any legal proceeding that will result in an unfavorable ruling for the Entity in amounts greater than the provisions it has recognized as of such dates.

28. Segment information

The information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment is based on three segments as follows:

- Textile: manufacture and distribution of yarns and fabrics of all kinds of natural and synthetic fibers.
- Commercial: marketing of clothing, bedding for home and logistics services and also the operation of clothing stores. Due to the sale of Milano, which is presented as a discontinued operation this segment has been eliminated for all periods presented.
- International: distribution for home products in USA, manufacture and distribution in Colombia for the fashion industry and our fabric and yarn distributor for South America.

a. The following segment information is presented based on the management approach as follows.

	2020			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 6,968,605	$ 10,498,656	$ (6,005,354)	$ 11,461,907
Gross profit	1,236,038	843,921	(129,226)	1,950,733
Sales expense	580,967	137,874	(116,842)	601,999
Administrative expenses	428,649	439,869	(133,830)	735,293
Other expenses (income), net	(210,491)	13,658	542,950	346,117
Depreciation and amortization	61,856	417,656	-	(479,512)
Depreciation of right-of-use asset	-	20,959	-	(110,769)
EBITDA	77,787	718,706	(605)	795,888
Interest expenses, net	215,663	563,306	217,598	(996,567)
Exchange gain, net	(55,222)	(311,044)	(157,866)	(524,132)
Income tax	29,424	17,864	253,144	300,432
Consolidated net loss of continuing operations	(284,378)	(645,959)	(623,470)	(1,553,807)
Total assets	$ 6,715,823	$ 14,580,516	$ 2,477,129	$ 23,773,468
Total liabilities	$ 4,001,631	$ 13,142,539	$ 4,191,119	$ 21,335,289

	2019			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 7,223,169	$ 14,040,283	$ (7,185,161)	$ 14,078,291
Gross profit	971,480	1,359,343	(355,289)	1,975,534
Sales expense	568,429	547,704	(409,746)	706,387
Administrative expenses	415,803	497,867	(178,066)	735,604
Other expenses (income), net	(12,752)	313,772	(335,029)	(34,009)
Depreciation and amortization	73,444	453,261	(9,538)	517,167
Depreciation of right-of-use asset	42,377	55,956	-	98,333
EBITDA	230,180	969,344	(631,972)	567,552

	2019			
	International	Textile	Eliminations	Total Consolidated
Interest expenses, net	309,922	580,363	191,899	1,082,184
Exchange gain, net	(17,201)	(236,228)	(94,030)	(347,459)
Income tax	(6,988)	184,223	-	177,235
Consolidated net loss of continuing operations	(171,374)	(89,757)	(83,277)	(344,408)
Acquisition of property, plant and equipment	$ 116,784	$ 142,393	$ 136,842	$ 396,019
Property, plant and equipment, net	$ 3,317,332	$ 6,338,985	$ -	$ 10,329,507
Total assets	$ 7,747,797	$ 13,860,933	$ 2,997,699	$ 24,606,429
Total liabilities	$ 4,527,938	$ 11,877,084	$ 4,168,578	$ 20,573,600

	2018			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 7,042,363	$ 13,028,979	$ (5,532,345)	$ 14,538,997
Gross profit	1,010,762	1,299,793	(532,791)	1,777,764
Sales expense	565,511	212,488	(73,563)	704,436
Administrative expenses	412,232	815,285	(422,123)	805,394
Other expenses (income), net	33,019	272,020	(510,719)	(205,680)
Depreciation and amortization	80,977	484,498	(12,553)	552,922
EBITDA	298,923	740,216	-	1,039,139
Interest expenses, net	279,063	501,949	235,874	1,016,886
Exchange gain, net	9,095	(13,547)	(1,854)	(6,306)
Income tax	11,807	59,186	23,429	94,422
Consolidated net loss of continuing operations	(82,019)	(388,373)	(160,996)	(631,388)
Acquisition of property, plant and equipment	$ 16,614	$ 227,678	$ -	$ 244,292
Property, plant and equipment, net	$ 3,667,158	$ 6,700,942	$ -	$ 10,368,100
Total assets	$ 7,172,276	$ 13,773,431	$ 1,043,803	$ 21,989,510
Total liabilities	$ 3,681,749	$ 11,299,617	$ 1,206,239	$ 16,187,605

29. Subsequent event

a) Labor Reform.

During April 2021, various labor reforms to the Federal Labor Law (“LFT”), Social Security Law (“LSS”), Law of the National Housing Fund Institute for Workers (“LINFONAVIT”), Federal Tax Code (“CFF”), Income Tax Law (“LISR”) and the Value Added Tax Law (“LIVA”) were enacted, with the aim of regulating the regime of subcontracting of labor personnel ("outsourcing") in Mexico. This reform was approved and published in the Official Gazette of the Federation on April 23, 2021, and entered into effect the day after its publication. Additionally, the applicable rules in relation to the labor reform were published on May 24, 2021.

The main changes of this reform are:

- Outsourcing schemes are prohibited by law.
- As the only exception, it is established that the provision of specialized services or the execution of specialized activities, which are not part of the corporate purpose or the economic activity of the beneficiary of the services, will not be considered subcontracting of personnel.
- The contractor must register in the public registry of specialized services to obtain an authorization from the Ministry of Labor and Social Welfare to operate as a provider of specialized services.
- Economic sanctions are established for employers who benefit from outsourcing and fail to comply with the law.
- For tax purposes, it is established that the tax receipts that have been issued may not have tax effects as a result of the subcontracting of personnel.
- The contractors of the referred specialized services will be jointly liable for the contributions paid by the contractor.
- It is proposed to establish as qualifying for the commission of the crime of tax fraud and its equivalents, the use of simulated schemes for the provision of specialized services or the execution of specialized works, as well as the execution of the subcontracting of personnel.
- The amount of PTU that is paid to workers will have a maximum limit of three months of the worker's salary or the average of the participation received in the last three years; the amount that is most favorable to the worker will be applied.

According to the reform, compliance with the requirements has a deadline of July 23, 2021. Management is in the process of implementing internal restructurings associated with the new labor reform and is in the process of evaluating the potential impacts to ensure compliance with these regulations.

30. Authorization to issue the consolidated financial statements

On August 26, 2021, the issuance of the accompanying consolidated financial statements was authorized by Lic. Jaime Morales Chief Financial Officer and C.P. Carlos Avelar Guerrero, the Entity's Legal Representative; consequently, they do not reflect events occurred after that date, and subject to the approval of the ordinary shareholders' of the Entity, who may be modified in accordance with the provisions of the General Law of Commercial Companies.

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Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2021 and 2020, and Independent Auditors' Report Dated July 29, 2022

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2021 and 2020

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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Kaltex, S. A. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Kaltex, S. A. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the consolidated statements of loss and other comprehensive loss, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of Grupo Kaltex, S.A. de C.V. and subsidiaries as of December 31, 2021 and 2020 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor´s Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1a to the consolidated financial statements, the declaration of the COVID-19 pandemic in 2020 had a negative impact on the Entity's industry and operations. In the years ended December 31, 2021 and 2020, the Entity suffered consolidated net losses of $641,376 and $1,594,650, respectively; in addition, at those dates it has accumulated deficits of $3,851,230 and $2,926,080 and at December 31, 2021 shows a negative working capital of $4,195,961. And it has lost all of its capital stock, which according to the General Law of Commercial Companies could be cause for dissolution of the Entity at the request of an interested third party. Additionally, the Entity has short-term financial obligations for $4,533,422. According to the Entity's management, this situation has not affected, nor will affect the continuity of its operations; nor the Entity's operating plans for the year 2022 and subsequent years, which are described in Note 1d. The Entity's ability to continue as a going concern depends 100% on the successful implementation of Management's plans to improve operating results, to be able to exercise the loan resources with the Financial Institution and partially repay the Senior Bond, as well as the renegotiation of the Senior Bond remainder. Additionally, the majority shareholder has expressed through a letter of financial support and its clear intention to support the company, in the event that any negotiation is not completed. Our opinion has not been modified with respect to this matter.

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Key Audit Matters

Key audit matters are those which, according to our professional judgment, have the greatest significance for our audit of the consolidated financial statements of the current period. They have been handled within the context of our audit of the consolidated financial statements taken as a whole and the formation of our opinion in this regard. Accordingly, we do not express a separate opinion on these matters. We have decided that the issues described below constitute the key audit matters that must be included in our report.

Impairment of Long-Lived Assets

We consider the potential impairment of intangible assets with indefinite useful lives and goodwill as a key audit matter, mainly due to the fact that impairment tests involve the application of significant judgments and estimates by the Company's management to determine the recoverable value of the CGUs, specifically related to the changes in the current economic environment caused by the global coronavirus pandemic ("COVID-19") in its businesses. If necessary, it also performs an impairment analysis according to IAS 36, *Impairment of Assets* ("IAS 36"), in which discounted future cash flows are calculated to ascertain whether the value of assets has become impaired. However, a risk exists whereby the assumptions utilized by management to calculate future cash flows may not be fair based on current conditions and those prevailing in the foreseeable future.

The audit procedures we applied to cover the risk of the impairment of long-lived assets include the following:

We verified, according to our knowledge of the business and historical audited information, the regularization of any nonrecurring effect, so as to avoid considering these effects in the projections. We analyze in a general way the assumptions, variables and supporting information used in the impairment test of the UGE; estimate a discount rate based on the Weighted Average Cost of Capital ("WACC") methodology in order to make a comparison against the discount rate estimated by the Entity; perform a referential sensitivity exercise based on the Entity's model in relation to the veracity and use of risk analysis. The results derived from the application of our audit tests were reasonable.

Responsibilities of Management's and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity´s ability to continue as a going concern, disclosing, as applicable, matters, related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity´s financial reporting process.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management´s use of the going concerns basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors´ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

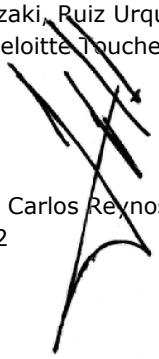
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided the Entity's corporate governance officers with a declaration to the effect that we have fulfilled applicable ethical requirements regarding our independence and have reported all the relations and other issues that could be reasonably be expected to affect our independence and, when applicable, the respective safeguards.

Deloitte.

The issues we have reported to the Board of Directors and Stockholders of Grupo Kaltex, S. A. de C. V. include the matters that we consider to have the greatest significance for the audit of the consolidated financial statements of the current period and which, accordingly, are classified as key audit matters. We have described these matters in this audit report, unless legal or regulatory provisions prevent them from being disclosed or, under extremely infrequent circumstances, we conclude that a given matter should be excluded from our report because we can fairly expect that the resulting adverse consequences will exceed any possible benefits as regards the public interest.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C. P. C. Juan Carlos Reynoso Degollado
July 29, 2022

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2021 and 2020
(In thousands of Mexican pesos)

Assets	Note	2021	2020
Current assets:			
Cash and cash equivalents	5	$ 225,755	$ 180,392
Accounts receivable, net	6	2,488,871	2,229,922
Due from related parties	20	2,383	228,528
Inventories, net	7	1,861,285	2,189,662
Prepaid expenses		287,183	252,187
Assets available for sale	21	-	6,565,571
Total current assets		4,865,477	11,646,262
Non-current assets:			
Property, plant and equipment, net	8	8,717,270	9,448,742
Right-of-use assets	10	333,567	702,336
Investment properties	9	1,015,037	1,567,057
Deferred tax asset	24	76,923	384,572
Other assets, net	11	3,735	24,499
Total non-current assets		10,146,532	12,127,206
Total assets		$ 15,012,009	$ 23,773,468

Liabilities and stockholders' equity	Note	2021	2020
Current liabilities:			
Current portion of long-term debt	12	$ 4,533,422	$ 81,344
Accounts payable to suppliers		1,677,881	1,932,882
Short-term lease liability	13	78,552	78,232
Due to related parties	20	488,339	401,238
Other accounts payable and accrued liabilities	14	2,087,720	1,943,257
Direct employee benefits		143,076	62,815
Advance payments from customers		52,448	18,853
Liabilities available for sale	21	-	4,165,941
Total current liabilities		9,061,438	8,684,562
Non- current liabilities:			
Long-term debt	12	-	6,372,752
Accounts payable to related parties	20	2,645,423	3,275,993
Lease liability	13	279,872	597,816
Employee retirement benefits	15	569,630	577,539
Labor provision		-	6,106
Deferred tax liabilities	24	1,458,473	1,820,521
Total non - current liabilities		4,953,398	12,650,727
Total liabilities		14,014,836	21,335,289
Stockholders' equity:			
Capital stock	18	4,017,990	4,017,990
Accumulated deficit		(3,851,230)	(2,926,080)
Other comprehensive income		(556,823)	14,693
Controlling interest		(390,063)	1,106,603
Non-controlling interest	19	1,387,236	1,331,576
Total stockholders' equity		997,173	2,438,179
Total liabilities and stockholders' equity		$ 15,012,009	$ 23,773,468

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Loss and Other Comprehensive Loss

For the years ended December 31, 2021 and 2020
(In thousands of Mexican pesos)

	Note	2021	2020
Net sales		$ 13,328,371	$ 11,461,907
Cost of sales	22	11,534,150	9,511,174
Gross profit		1,794,221	1,950,733
Sales expenses	22	389,268	601,999
Administrative expenses	22	685,387	735,293
Other (income) expenses, net	23	(791,589)	346,117
Operating profit		1,511,155	267,324
Interest expense		694,042	1,023,497
Interest income		(3,200)	(15,755)
Income on valuation of derivative financial instruments		-	(11,175)
Exchange loss (gain), net		469,736	524,132
Income (loss) before tax		350,577	(1,253,375)
Income tax	24	420,437	300,432
Net consolidated loss from continuing operations		(69,860)	(1,553,807)
Discontinued operations	21	-	(146,588)
Net consolidated loss		(69,860)	(1,700,395)
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on employee benefits, net of income tax	15	26,232	2,641
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		(597,748)	103,104
Other comprehensive (loss) gain for the year		(571,516)	105,745
Consolidated comprehensive loss		$ (641,376)	$ (1,594,650)
Consolidated net loss attributable to:			
Controlling interest		$ (125,520)	$ (1,150,714)
Non-controlling interest	19	55,660	(549,681)
		$ (69,860)	$ (1,700,395)
Consolidated comprehensive net loss attributable to:			
Controlling interest		$ (697,036)	$ (992,609)
Non-controlling interest		55,660	(602,041)
		$ (641,376)	$ (1,594,650)

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2021 and 2020
(In thousands of Mexican pesos)

			Other comprehensive income (loss)				
	Capital stock	Accumulated deficit	Cumulative translation adjustment	Actuarial gain on employee benefits	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2020	$ 4,017,990	$ (1,775,366)	$ (205,606)	$ 62,194	$ 2,099,212	$ 1,933,617	$ 4,032,829
Comprehensive loss for the year	-	(1,150,714)	155,464	2,641	(992,609)	(602,041)	(1,594,650)
Balances as of December 31, 2020	4,017,990	(2,926,080)	(50,142)	64,835	1,106,603	1,331,576	2,438,179
Comprehensive loss for the year	-	(125,520)	(597,748)	26,232	(697,036)	55,660	(641,376)
Loss on sale of subsidiary to shareholders	-	(799,630)	-	-	(799,630)	-	(799,630)
Balances as of December 31, 2021	$ 4,017,990	$ (3,851,230)	$ (647,890)	$ 91,067	$ (390,063)	$ 1,387,236	$ 997,173

See accompanying notes to consolidated financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020
(In thousands of Mexican pesos)

	2021	2020
Cash flows from operating activities:		
Consolidated net loss	$ (69,860)	$ (1,553,807)
Adjustments for:		
Income tax recognized in net loss	420,437	300,432
Gain on disposal of property, plant and equipment	(8,866)	(27,296)
Gain on sale of subsidiary to shareholders	(954,920)	-
Depreciation and amortization	430,736	479,512
Depreciation of right-of-use asset	18,865	110,769
Fair value adjustment of investment properties	394,977	259,641
Interest income	(3,200)	(15,755)
Interest expense	694,042	1,023,497
Unrealized foreign exchange, net	73,497	(576,072)
	995,708	921
Changes in working capital:		
(Increase) decrease in:		
Accounts receivables, net	(258,949)	(105,390)
Inventories, net	328,377	361,042
Prepaid expenses	(34,996)	(44,817)
Assets available for sale, net	2,399,630	-
Other assets, net	20,764	21,541
Increase (decrease) in:		
Accounts payable to suppliers	(255,001)	(27,121)
Accounts payable to related parties	(1,364,562)	49,319
Other accounts payable and accrued liabilities	(122,734)	1,139,121
Direct employee benefits	80,261	(16,528)
Advance payments from customers	33,595	11,772
Income taxes paid	(306,821)	(324,984)
Retirement employee benefits	(7,909)	45,949
Contingencies	31,370	(1,784)
Cash flows from discontinued operations	-	336,469
Net cash flows generated by operating activities	1,538,733	1,445,510
Cash flows from investing activities:		
Interest received	3,200	15,755
Acquisition of property, plant and equipment	(147,709)	(312,866)
Sale of property, plant and equipment	221,660	2,319
Cash flows from discontinued activities	-	(40,555)
Net cash flows used in investing activities	77,151	(335,347)

	2021	2020
Cash flows from financing activities:		
Proceeds from debt	-	101,876
Payments of debt	(2,158,186)	(68,164)
Proceeds from related parties	1,542,908	13,000
Payments of related parties	(381,419)	(127,433)
Lease payments	(71,527)	(307,986)
Interest paid	(505,596)	(471,638)
Cash flows from discontinued operations	-	(472,903)
Net cash flow used in financing activities	(1,573,820)	(1,333,248)
Net increase (decrease) in cash and cash equivalents	42,064	(223,085)
Effects of exchange rate changes on the balance of cash held in foreign currencies	3,299	4,747
Cash and cash equivalents at the beginning of the year	180,392	398,730
Cash and cash equivalents at the end of the year	$ 225,755	$ 180,392

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020
(In thousands of Mexican pesos, except as indicated)

1. Activities and significant events:

Activities

Grupo Kaltex, S. A. de C. V. and Subsidiaries ("Kaltex" or the "Entity") is the majority shareholder of a group of entities principally engaged in the manufacturing and distribution of yarns and fabrics of all kinds of natural and synthetic fibers, the maquila and marketing of clothing and bedding for home, logistics services, as well as the operation of clothing stores.

The Corporate address of the Entity is Av. Ingenieros Militares No. 2, Colonia Empleado, C.P. 53380, Naucalpan de Juarez, Estado de México, México.

Going concern –

The consolidated financial statements have been prepared on the basis of ongoing business, which assumes that the Entity will continue to operate as a going concern. To address this uncertainty, the Entity's management will continue to execute strategies to reduce costs and expenses annually and will continue with the restructuring plan initiated in 2021, which consisted of selling some less profitable plants. (see subparagraphs i and j of this Note).

a. ***Implications resulted from COVID-19 –*** Net sales in 2021 increased by 16% to $13,328, compared to $11,462 the previous year. This increase is mainly due to the recovery in the consumption trend.

Earnings before taxes plus / minus interest, exchange rate fluctuations, and the effect of derivatives on financial costs, depreciation and amortization (EBITDA) in 2021 increased 129% to reach $1,960,754, compared to $857,605 the previous year. The increase in EBITDA of $1,103,149 was mainly due to the increase in the generation of EBITDA in all business segment of the Entity, affected by the implementation of contingency measures by the COVID-19 pandemic.

b. ***Amortization of Senior Bonds 2021*** - During fiscal year 2021, the Company amortized $2,158.2 million of the Senior Notes and its accrued interest, from the sale of assets (see subsections i and j).

c. ***Senior Bond Default 2022*** - On April 11, 2022, Kaltex defaulted on the principal of the Senior Bonds ("Bonds"), which constituted a default event. This event was duly informed by the Company to the holders of the bonds in accordance with the applicable provisions, without the Entity having received any communication to date regarding the acceleration of the debt. The total amount of this debt was reclassified in the short term in the Consolidated Statement of Financial Position as of December 31, 2021 for an amount of $4,533,422 million pesos, causing short-term liabilities to significantly exceed current assets at that date. From that time to date, the Company has continued in discussions with bondholders to determine the terms and conditions under which the Senior Bonds will be paid and renegotiated.

d. ***The Company's plan to partially repay the bonds and renegotiate the missing bonds is as follows:***

Part A - Bank Loan - In order to be able to face the partial liquidation of the bonds, the Company requested and obtained a bank loan for a term of 10 years with 3 months of grace, for an amount of $100 million dollars, which can be disposed of either up to 40% in dollars or up to a minimum of 60% in national currency at an interest rate of TIIE at 91 days + 285 basis points, with quarterly payments. As of the date of these consolidated financial statements, the term sheet has already been signed and the contract is in the process of being prepared.

During the term of the contract, the Company must comply with the following points:

- Verification of resources and accounting movements;
- The Company may contract financial liabilities and/or pay dividends as long as it has the prior written approval of the Financial Institution;
- Submit quarterly internal financial statements (March, June, September and December) under IFRS signed by the legal representative;
- Submit annual financial statements including opinion and its notes in accordance with IFRS within 180 calendar days after the end of the year;
- Monitoring and rating will be done on the Consolidated Financial Statements of Manufacturas Kaltex and its subsidiaries;
- Keep insured the assets that guarantee the credit up to 100% of the value recognized for the purposes of coverage;
- Submit bank appraisals of the guarantees of movable and immovable property which must be updated every two years from the date of contracting and validity of the credit;
- It will be cause for early maturity when the Company, without prior written consent to the Financial Institution, modifies its shareholding structure and the foregoing implies that the current majority shareholders cease to control 51% of the shares.

Part B Agreement with Bondholders -The remaining $118 million will be replaced through a rollover of the previous debt with the exchange of a new bond issue. Among the bondholders, the Company identified five major bondholders, who together hold approximately 45% of the prevailing bond. This group of bondholders ("Ad Hoc Group") came together to negotiate the terms of the refinancing.

The Company has a draft Transaction Support Agreement ("TSA"), which details the commitments of the Ad Hoc Group and Kaltex to execute the refinancing of the current Bond.

In general terms, the TSA with the Ad Hoc Group consists of the total of $218 million dollars in force of the current Bond, $100 million dollars will be paid with the bank credit described above and the remaining $118 million through a bond exchange offer.

The proposed "term sheet" is included in the TSA, of which the main points to highlight are the following:

- The Ad Hoc Group will exchange at least $76 million of its current notes;
- The Mexican Investors group will redeem at least $22 million of its current notes;
- In the event that $118 million is not raised with the above points, up to $20 million additional dollars will come in from the "Funding Commitment" (Certain members of the Ad Hoc Group will sign a letter of commitment by which they are obliged to buy up to $20 million dollars of the new bond (New Money Notes). For its part, Kaltex undertakes to pay the said members 5% of the New Money Notes they have acquired. The maximum amount to pay for this concept is $1 million dollars).
- A public exchange offer will be made for a maximum amount of $118 million, which, in conjunction with the bank credit, will be used to pay off all of the current Notes.
- No haircut is done: For every $1,000 of capital exchanged, Bondholders will receive $1,000 of new notes plus accrued interest not paid since the date of default calculated at the contract rate of 8.875%.
- The Company will pay investors participating in the exchange a commission of 1.5% on the nominal amount of the Notes to be redeemed.
- The term that is currently being negotiated is 3 years with amortization at maturity.
- Fixed rate of 13% with semi-annual payments starting in October 2022 based on USD $118 million.

e. ***Condition of the loan with Financial Institution and Contract with Bondholders*** -For the disposition of the credit flow with the financial institution, the Company must present evidence of the binding document that Kaltex has the formalization, resources and / or financing for the payment of the difference between the amount of the Bond and the credit of the financial institution (agreement with Bondholders described in paragraph d part B).

f. ***Warranties*** **-** For the loan with the financial institution, the majority shareholders left as collateral properties in guarantee for $ 156 million dollars to meet the capacity requirement of 1.5: 1 of that contract; and for the TSA the properties under guarantee amount to an appraisal value of $241 million dollars.

g. ***Financial support*** - The majority shareholder has expressed through a letter of support his clear intention to support the company, in the event that any negotiation is not finalized.

h. ***Evaluation of the Possible Sale of Non-Strategic Businesses*** – After finalizing the renegotiation of the bonds for 118 million, they must be liquidated within a period of 3 years (as mentioned in paragraph d). In order to obtain these flows, the company's medium-term plan is to sell non-strategic businesses, which are not included as guarantees in order to have a future option to sell them The successful sale of non-strategic businesses is a fundamental part of the fulfillment of the medium-term payment of the bonds.

Significant events

a. ***Sale of Milano*** - On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party MCM, S.A. de C.V., whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in 2021. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020 present the results associated with Milano as discontinued operations. With the resources obtained from said sale, the Entity reduced the debt balance from USD $320 to USD $260 million as of June 30, 2021.

b. ***Sale of Revman*** **-** On June 30, 2021, the holding company Kaltex Northamerica, Inc., a subsidiary of Kaltex sold the investment in its subsidiary Revman International, Inc. to a third party for US $66 million, which will be paid in June US $40 million and in September US $26. Given that Revman does not represent a major segment of the Entity, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date.

2. Adoption of new and revised International Financial Reporting Standards

Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

These modifications have not implied changes for the Entity since it has no exposure to IBOR reference interest rates.

The Entity implemented a series of new and modified IFRS, issued by the International Accounting Standards Board ("IASB") which are mandatory and came into force as of fiscal years beginning on or after 1 January 2021.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 after June 30, 2021, amendment to IFRS 16

In the prior year, the Entity early adopted *Rent Concessions under IFRS 16 due to issues related to COVID-19* (amendment to IFRS 16) which provides practical expedients for the accounting of concessions for lessees as a direct consequence of COVID-19, introducing a practical expedient to IFRS 16.

In March 2021, the IASB issued *Lease Concessions related to COVID-19 after June 30, 2021* (*amendment to IFRS 16*). When the IASB issued amendments to IFRS 16 in May 2020, the lessor was allowed to apply the practical expedient of the rent concession for any reduction in lease payments affecting the original payments before or as of June 30, 2021. Due to the nature of the COVID-19 pandemic, the amendment extended a practical expedient to apply those original payments on or before June 30, 2022.

In the current financial year, the Entity has applied the amendment to IFRS 16 (as issued by the IASB in May 2021) in advance of its effective date in the consolidated statement of income under other operating expenses.

The practical expedient permits a lessee to elect not to assess whether a COVID-19 related rental is a lease modification. A lessee that makes this election must account for any change in rental payments resulting from the COVID-19 related rental concession by applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rental awards that occur as a direct consequence related to COVID-19 and only if the following conditions are met:

a) The change in lease payments results in consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change.

b) Any reduction in lease payments only affects payments due on or before June 30, 2022 (a rental award meets this condition if it results in a reduction in payments before June 30, 2022 or increases lease payments that extend beyond June 30, 2022); and

c) There is no substantive change in any other term or condition of the lease.

Impact on accounting for changes in lease payments applying the exemption

The Entity has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B and has not restated prior period figures.

New and amended IFRS Standards that are not yet effective

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or contribution of assets between an investor and its associate or joint venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	*Property, Plant and Equipment - before being used*
Amendments to IAS 37	*Onerous contracts - costs of complying with a contract*
Annual Improvements to IFRS Standards 2018-2020	IFRS 9 *Financial Instruments* and IFRS 16 *Leases*
Amendments to IAS 1 and to IFRS 2 practice statements	*Disclosure of accounting policies*
Amendments to IAS 8	*Definition of accounting estimates*
Amendments to IAS 12	*Deferred taxes related to assets and liabilities arising from a single transaction*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 - Property, Plant and Equipment - Before use

The amendments prohibit the deduction from the cost of an asset of property, plant or equipment of any revenue from selling the asset after it is ready for use, for example, revenue while the asset is being brought to the location and the necessary refurbishment is being carried out to make it operable in the manner intended by management. Accordingly, an entity should recognize such sales revenue and costs in profit or loss.

An entity measures the costs of these items in accordance with IAS 2 Inventories.

The amendments clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as an assessment of whether the physical and technical performance of the asset is capable of being used in the production or supply of goods or services, for rental or other or administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of revenues and costs in profit or loss related to items that are not an outflow from the entity's ordinary activities, in the line item(s) in the statement of comprehensive income where revenues and costs are included.

The modifications are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating as management intends on or after the beginning of the period in which the entity's financial statements in which the modifications are first applied.

An entity shall recognize the cumulative effect of the initial application of the amendments as an adjustment to the balance in retained earnings (or an appropriate component of equity) at the beginning of the earliest period presented.

The amendments are effective for annual periods beginning on January 1, 2022 with an option for earlier application.

Annual Improvements to IFRS Standards 2018–2020

The *Annual Improvements* include amendments to four Standards.

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date, the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendments eliminate the reimbursement for leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

The amendments are effective for annual periods beginning on or after January 1, 2022, with an initial adoption option.

Amendments to IAS 1 and IFRS Practice Statements 2 Disclosure of Accounting Policies

The amendments change the requirements of IAS 1 with respect to the disclosure of accounting policies. The amendment replaces the terms "significant accounting policies" with "disclosures of material accounting policies". Accounting policy disclosures are material when they are considered, in conjunction with other information included in an entity's financial statements, to influence the decision-making of primary users of general purpose financial statements and are made on the basis of those financial statements.

The supporting paragraphs in IAS 1 are amended to clarify the disclosure of accounting policies that relate to immaterial transactions, other events or conditions that are themselves material.

To support these amendments, the IASB has developed guidance and examples to explain and demonstrate the application of the "4 steps of the materiality process" described in IFRS Practice Statement 2.

The amendments to IAS 1 will be effective for annual periods beginning on January 1, 2021, with an option for early application and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Definition of accounting estimates.

The amendments replace the definition of a change in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to measurable uncertainty".

The definition of a change in accounting estimates was eliminated. However, the IASB retained the concept of changes in an accounting estimate in the standard with the following clarifications:

- A change in an accounting estimate is the result of new information or a new development is not a correction of an error.

- The effects of a change in an input or a valuation technique used to develop an accounting estimate are changes in accounting estimates if they do not result from a correction of prior period errors.

The IASB added two examples (example 4-5) to the accompanying IAS 8 Implementation Guide. The IASB has removed one example (example 3) as it could cause confusion because of the amendments.

The amendments will be effective for annual periods beginning on January 1, 2023 for changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period with an option for early application.

Amendments to IAS 12 Deferred Taxes related to assets and liabilities arising from a single transaction

The amendments introduced an additional exception other than the initial recognition exemption. In the amendments, an entity does not apply the initial recognition exception for transactions that give rise to taxable and deductible temporary differences.

Depending on the applicable tax law, taxable and deductible temporary differences may arise on initial recognition of an asset and a liability in a transaction that is not a business combination and does not affect accounting and taxable income. For example, it may occur with a recognition of a lease liability and a corresponding right-of-use asset applying IFRS 16 Leases at the inception date of a lease.

Following the amendments to IAS 12, an entity is required to recognize deferred tax assets and liabilities, with the recognition of any deferred tax asset being subject to the recoverability criterion.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions occurring on or after the first comparative period of the reporting period. Additionally, at the beginning of the first comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable income is available against the deductible temporary difference) and a deferred tax liability for all taxable and temporary deductions associated with:

    - Right-of-use assets and lease liabilities.
    - Decommissioning restoration and similar liabilities corresponding to amounts recognized as part of the asset-related costs.

- The cumulative effect at the beginning of the application of the amendments as an adjustment to the opening balances of retained earnings (or some other component of equity, as appropriate) as of the date.

The amendments will be effective for annual periods beginning on January 1, 2023, with an option for earlier application.

3. Significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

The entity's management has, at the time of approving the financial statements, a reasonable expectation that the Entity has the necessary resources to continue operating in the foreseeable future. Therefore, they continue to adopt the Going Concern accounting basis when preparing the financial statements.

b. ***Basis of measurement***

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for the investment properties, that they are valued at revalued amounts at the end of each period, as explained in the accounting policies included below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of consolidation of the financial statements***

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the invested;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Entity's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 – Financial Instruments, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Entity's main subsidiaries are:

Entity	Participation 2021	Participation 2020	Activity
Kaltex Textiles, S.A. de C. V. and subsidiaries	73.7%	73.7%	Majority stockholder of a group of entities principally engaged in the manufacture and distribution of yarns and fabrics all kinds of natural and synthetic fibers, as well as the maquila and marketing of clothing and bedding for home.
Kaltex Comercial, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in buy and selling of bedding for home and clothing and operation of clothing stores.
Entity	**Participation 2021**	**Participation 2020**	**Activity**
Kaltex Internacional, S. A. de C. V. and subsidiaries	60.26%	60.26%	Majority stockholder of a group of foreign subsidiaries principally engaged in manufacturing of all kinds of fabrics, threads and marketing of apparel and bedding for home.
Kaltex Energía, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in the supply of energy to the manufacturing facilities of Manufacturas Kaltex, S. A. de C.V. and Kaltex Fibers, S. A. de C.V., related parties

d. ***Translation of financial statements of foreign subsidiaries***

To consolidate the financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to IFRS based on the transaction recording currency. The financial statements are translated into Mexican pesos (presentation currency), considering the following methodology:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the recording currency to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the statement of financial position date for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item; translation effects are recorded exchange (loss) gain, net, within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the statement of financial position date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

The recording and functional currencies of foreign operations as well as the exchange rates used in the different translation processes are as follows:

Entity	Recording currency	Functional currency
Kaltex North America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex Latino América, S.A.S.	Colombian Peso	Colombian Peso
Kaltex Colombia, S. A. S.	Colombian Peso	Colombian Peso
Coltejer, S. A.	Colombian Peso	Colombian Peso
Kaltex-Argus, S. A.	Nicaraguan Cordoba	U.S. Dollar

e. ***Financial instruments***

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

f. ***Financial assets***

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and

- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

(i) ***Amortized cost and effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset.

If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income."

Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) ***Significant increase in credit risk***

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default,

(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily; reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) ***Definition of default***

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) ***Credit-impaired financial assets***

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) Significant financial difficulty of the issuer or the borrower;

(b) A breach of contract, such as a default or past due event (see (ii) above);

(c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) ***Write-off policy***

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) ***Measurement and recognition of expected credit losses***

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(vi) ***Derecognition of financial assets***

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

g. ***Financial liabilities***

All financial liabilities are measured subsequently at amortized cost using the effective interest method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

If a hedging relationship fails to meet the hedge effectiveness requirement related to the hedging relationship, but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedging relationship of the hedging relationship. coverage (that is, rebalances the coverage) so that it meets the qualification criteria again.

The Entity designates the complete change in the fair value of a forward contract (that is, it includes the forward elements) as the hedging instrument for all its hedging relationships that involve forward contracts.

The Entity designates only the intrinsic value of the option contracts as a hedged item, that is, excluding the time value of the option. Changes in the fair value of the time value of the option are recognized in other comprehensive income and are accumulated in the cost of the hedge reserve. If the hedged item is related to the transaction, the time value is reclassified to profit or loss when the hedged item affects the profit or loss. If the hedged item is related to the period of time, then the accumulated amount in the cost of the hedge reserve is reclassified to profit or loss in a rational manner: The Entity applies amortization in a straight line.

These reclassified amounts are recognized in profit or loss in the same item as the hedged item. If the hedged item is a non-financial item, the accumulated amount in the cost of the hedge reserve is eliminated directly from the equity and is included in the initial carrying amount of the recognized non-financial item. In addition, if the Entity expects that part or all of the accumulated loss in the cost of the hedge reserve will not be recovered in the future, that amount will be reclassified immediately to results.

Fair value hedges

The change in the fair value of qualified hedging instruments is recognized in profit or loss, except when the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item that has not yet been measured at fair value is adjusted for the change in fair value attributable to the hedged risk with a corresponding entry in results. For debt instruments measured at fair value through other comprehensive income, the book value is not adjusted since it is at fair value, but the gain or loss of coverage is recognized in profit or loss instead of another result integral. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the gain or loss of coverage remains in other comprehensive income to coincide with that of the hedging instrument.

When the gains or losses of coverage are recognized in results, they are recognized in the same item as the hedged item.

The Entity interrupts hedge accounting only when the hedge relationship (or a part of it) fails to meet the rating criteria (after rebalancing, if applicable). This includes the cases in which the hedging instrument expires or is sold, canceled or exercised. The suspension is accounted for prospectively.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Entity expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

h. ***Cash and cash equivalents***

Consist mainly of bank deposits in checking accounts and investments in short-term securities, highly liquid, easily convertible into cash and have maturities of three months from the date of purchase and not subject to material risk of changes in value. Cash is stated at nominal value and cash equivalents are measured at fair value; fluctuations in value are recognized in earnings. The cash equivalents are represented by investments in money market funds, investment funds, bank and governmental bonds, as well as investments on demand in Mexican pesos and US dollars.

i. ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

j. ***Property, plant and equipment***

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation of property, plant and equipment is recognized in profit or loss.

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	Useful live (years)	**Remaining useful live (years)**
Buildings		
Infrastructure	80	47
Electric, hydraulic and related installations	40	7
Building finishes	20	-
Industrial machinery and equipment	Between 20 to 30	Between 5 to 11
Transportation equipment	4 and 5	Between 1 to 4
Office furniture and equipment	10	Between 3 to 9
Computer equipment	3	-

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

k. ***Investment properties***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Entity's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

l. ***Intangible assets***

1. *Intangible assets acquired separately*

   Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2. *Intangible assets acquired in a business combination*

   Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. (which is regarded as their cost).

   Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. *Derecognition of intangible assets*

   An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

m. ***Impairment of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

n. ***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

o. ***Leases***

The Entity as lessee

The Entity evaluates whether a contract contains a lease at its source. The Entity recognizes a right-of-use asset for use rights and a corresponding lease liability with respect to all the lease agreements in which it is a lessee, except for short-term leases (12 months or less) and those for low-value assets. For these leases, the Entity recognizes rental payments as an operating expense under the straight-line method throughout the period of the lease, unless another method is more representative of the pattern of time in which the economic benefits from consumption of leased assets.

The lease liability is initially measured at the present value of the rent payments that are not paid on the start date, discounted by the rate implicit in the contract. If this rate cannot be easily determined, the Entity uses incremental rates.

The rent payments included in the measurement of the lease liability consist of:

- Fixed rent payments (including fixed payments in substance), less any lease incentives received;

- Variable income payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; y
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in current and long-term liabilities in the consolidated statement of financial position. The contractual maturities of the obligations for this concept are shown in Note 18f.

The lease liability is subsequently measured by increasing the book value to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rent payments made.

The Entity reevaluates the lease liability (and adjusts the corresponding asset for relative use rights) provided that:

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rental payments using an updated discount rate.
- The rent payments are modified as a consequence of changes in indexes, rate or in the expected payment under a guaranteed residual value, in which cases the lease liability is re-evaluated by discounting the updated rent payments using the same discount rate (unless that the change is due to a change in the variable interest rate, in which case an updated discount rate is used).
- A lease is amended and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is re-evaluated based on the lease term of the modified lease, discounting updated rental payments using a discount rate updated to the effective date of the modification.

Assets for rights of use consist of the initial measurement of the corresponding lease liability, the rent payments made on or before the commencement date, less any lease incentives received and any direct initial cost. Subsequent valuation is cost less accumulated depreciation and impairment losses.

If the Entity incurs an obligation arising from the costs of dismantling and removing a leased asset, restoring the bond in which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37. To the extent that costs are related to an asset for rights of use, costs are included in the asset for rights of related use, unless such costs are incurred to generate inventories.

In some cases, rights-of-use assets are depreciated over the shorter period between the lease period and the useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the asset for use rights reflects that the Entity plans to exercise a purchase option, the asset for use rights will be depreciated over the useful life. Depreciation begins on the start date of the lease.

Assets for rights of use are presented as a separate concept in the consolidated statement of financial position.

The Entity applies IAS 36 to determine if an asset for use rights is impaired and accounts for any impairment loss identified as described in the Property, plant and equipment policy.

Variable income leases that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use rights. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and are included in operating expenses in the consolidated statement of loss i (see Note 10).

The Entity as lessor

As of January 1, 2019, the Entity, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of lease established by IFRS 16.

Leases for which the Entity is considered a lessor are classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.
Revenues arising from operating leases are recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease are added to the book value of the leased asset and are recognized in a straight line over the term of the lease. Revenues arising from financial leases are recognized as accounts receivable for the amount of the net investment of the Entity in the leases.

p. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are generally recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

q. ***Employee benefits***

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item cost of sales, sales expenses or administrative expenses, according to the level of the personnel to which the cost is related. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing ("PTU")

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses line item in the consolidated statement of loss and other comprehensive loss.

As result of the 2014 Income Tax Law, as of December 31, 2021 and 2020, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law. Workers must be paid 10% of the company's profits in accordance with the provisions of the current legal framework.

Only when this amount exceeds 90 days (three months) of the worker's salary, 90 days of salary are established as the maximum limit for PTU payment, unless the average PTU paid by the company to workers according to their category in the last three years is greater than 90 days, then invariably said average amount must be paid, since this amount is more beneficial for the worker.

r. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

- *Current tax*

  Current income tax ("ISR") is recognized in the results of the year in which is incurred.

  The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

  A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Entity supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

- *Deferred income tax*

  Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Entity reviewed the Entity's investment property portfolios and concluded that none of the Entity's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of the investment properties, as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

- *Current and deferred tax for the year*

  Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

s. ***Statements of cash flows***

The Entity reports cash flows from operating activities using the indirect method, by means of which the consolidated net income is adjusted for the effects of transactions other than cash; any deferral or past or future accumulation of cash inflows or outflows and income or expense items associated with cash flows from investment or financing activities are also considered.

Interest expense and interest and dividend income are generally classified as financing and investment activities, respectively.

t. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

u. ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the normal course of operations, which occurs when control has been transferred to customers in exchange for the consideration to which the Entity considers, have the right to change said goods or services.

The Entity recognizes income according to the following:

- *Sale of goods - Textile Segment*

  Revenue from the sale of goods refers to the variety of yarns and fabrics of all kinds of natural and artificial fibers, including yarn, denim and non-denim, as well as clothing for the home and clothing. Revenues are recognized when the control of the assets has been transferred to the clients in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods.

  When control of the goods is not transferred to the customer mainly through export sales, the revenue is not recognized until delivery is made to the customer.

  The Entity has different commercial conditions agreed with each client, depending on the sector of the corresponding product. To reduce the risk when granting credit, the Entity asks its clients for a credit insurance. Additionally, Mexican clients are subjected to a risk analysis where they are requested information on guarantees, payment experience, commercial references verification and credit bureaus. Once the required information is received by the client, the credit is authorized by the Entity’s credit committee. The payment terms granted by the Entity range from 60 to 90 days.

- *Sale of goods - International Segment*

  Revenues include the distribution of cloth, garments, and high-quality home decoration products, mainly in the United States, which are given directly to the client at the different points of sale, where the payment for the transaction price is received.

  Additionally, the production and distribution of fabrics for the fashion industry of products that are delivered to the Entity's warehouses or to the Entity's wholesale clients, located in South America, essentially in countries such as Colombia and Nicaragua, for which an account receivable is recognized by the Entity when the goods are delivered to wholesale customers because it represents the point in time in which the right of consideration becomes unconditional, since only the passage of time is required for the payment to be made.

- *Rendering of services*

  Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

  The types of revenues described above comply with the conditions for the recognition of income and include the following:

  - The contract or contracts are identified with the customer.
  - The obligations to be performed in the contract are identified.
  - The transaction price is determined.
  - The transaction price is allocated among the different obligations to be performed in the contract.
  - The revenues are recognized when the Entity fulfills each of the obligations involved.

4. Critical accounting judgments and key sources of estimation uncertainty

To apply the accounting policies, the Entity's Management uses its judgment, estimates, and assumptions regarding certain asset and liability amounts in the consolidated financial statements. The associated estimates and assumptions reflect a quantitative and qualitative analysis based on an understanding of the various businesses that compose the Entity. Actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Amendments to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

The following are the critical judgments, apart from those involving estimations, that the management of the Entity has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- ***Significant increase in credit risk***

  As explained in note 6, the Expected Credit Loss "ECL" are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Entity takes into account qualitative and quantitative reasonable and supportable forward-looking information.

- ***Discount rate and lease renewals***

  Management defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. Management participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts´ terms considering their contractual rights and limitations, their business plan, as well as Management's intentions for the use of the underlying asset.

Management estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate. Management uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, Management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding Entity), or at the level of each subsidiary.

b. ***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- ***Inventory reserves***

  The factors that the Entity considers in inventory reserves are the sales volumes and movements in the age of the inventories.

- ***Calculation of allowance for credit loss***

  When measuring ECL the Entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

  Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

  Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- ***Property, plant and equipment***

  The Entity reviews useful lives of property, plant and equipment at least once a year, which are defined based on technical studies prepared by internal specialized personnel which also involve external experts. The degree of uncertainty about the estimated useful lives is affected by changes in the market, production volumes and technological developments.

- ***Investment properties***

  The fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate, including factors such as cap and discount rates for the investment properties.

- ***Impairment of non-current assets***

  The carrying value of non-current assets is reviewed for impairment if any situations or changes in circumstances indicate that the carrying value is not recoverable. If there is evidence of impairment, the asset is reviewed to determine if the carrying value exceeds its recoverable amount, in which case the asset is determined to be impaired. When evidence of impairment is identified, the Entity estimates the value in use assigned to its property, plant and equipment, and cash-generating units in the case of certain assets. The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and appropriate discount rate to calculate the present value. The Entity uses cash flow projections of revenue using estimates of market conditions, pricing, and production and sales volumes.

- ***Employee retirement benefits***

  Assumptions are used to determine the best estimate of these benefits annually. Such estimates, as well as assumptions, are established jointly with independent actuaries annually. These assumptions include demographic assumptions, the discount rates and expected increases in salaries and future permanence, among others. A change in these assumptions could affect the value of assets liabilities associated with employee benefits and the income statement and other comprehensive income in the period in which such changes occur.

- ***Fair value measurements and valuation processes***

  Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The Entity's Board of Directors has set up a valuation committee, which is headed up by the Entity's Financial Director, to determine the appropriate valuation techniques and inputs for fair value measurements.

  In estimating the fair value of an asset or liability, the Entity uses market-observable data to the extent it is available. When level 1 inputs are not available, the Entity engages third party qualified appraisers to perform the valuation.

  The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model. Every three months, the Financial Director reports the findings of the valuation committee to the Entity's board of directors to explain the causes of fluctuations in the fair value of assets and liabilities. Information about the valuation techniques and inputs used in the determining the fair value of various assets and liabilities are disclosed Note 16 i.

5. Cash and cash equivalents

	2021	2020
Cash	$ 225,487	$ 180,085
Cash equivalents -		
Investment funds	268	45
Money-market funds	-	262
Total	$ 225,755	$ 180,392

6. Accounts receivable

	2021	2020
Trade receivables	$ 1,784,404	$ 1,747,580
Allowance for doubtful accounts	(41,810)	(129,884)
	1,742,594	1,617,696
Sundry debtors	56,295	5,717
Recoverable income tax	16,343	7,886
Recoverable value-added tax	335,040	108,416
Other recoverable tax	338,599	490,207
	$ 2,488,871	$ 2,229,922

Accounts receivable from customers and wholesalers

The average credit term on the sale of goods is 60 days. The Entity has recognized an allowance for doubtful accounts for 4.88% of all accounts receivable with an aging of 91 days or more, due to the fact that due to prior experience, accounts receivable due more than 91 days are not recovered. For accounts receivable that are between 31 and 90 days old, an allowance is recognized for doubtful accounts based on expected loss determined by experiences of default of the counterparty and an analysis of its current financial position.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the limit of credit per client. The limits and ratings attributed to clients are reviewed twice a year. 81% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

Accounts receivable from customers include amounts that are due at the end of the reporting period (see the aging analysis below), but for which the Entity has not recognized any estimates for uncollectible accounts because there has been no significant change in credit quality and amounts (which include accrued interest after the accounts are 60 days) are still considered recoverable.

Age of receivables that are past due but not impaired

A summary of accounts receivable shows customers due, but not yet as impaired:

	2021	2020
1 to 30 days	$ 94,394	$ 316,968
31 to 60 days	24,789	19,529
61to 90 days	2,953	14,689
Over the 90 days	50,116	71,081
Total	$ 172,252	$ 422,267

	Trade receivables - days past due				
December 31, 2021	**<30**	**31 - 60**	**61 - 90**	**>91**	**Total**
Expected credit loss rate	2.38%	3.50%	4.35%	33.03%	-%
Estimated total gross carrying amount at default	1,339,434	82,525	62,072	300,372	1,784,404
Lifetime ECL	(31,879)	(2,888)	(2,700)	(4,343)	(41,810)

	Trade receivables - days past due				
December 31, 2020	**<30**	**31 - 60**	**61 - 90**	**>91**	**Total**
Expected credit loss rate	8.55%	2.11%	3.05%	31.92%	-%
Estimated total gross carrying amount at default	1,099,577	36,874	53,301	557,828	1,747,580
Lifetime ECL	(81,723)	(2,741)	(3,961)	(41,459)	(129,884)

The following table shows the movement in lifetime ECL that has been recognized for trade and other receivables in accordance with the simplified approach set out in IFRS 9

	Total
Balances as of January 1, 2020	$ (172,582)
Utilization of provision	42,698
Balances as of December 31, 2020	(129,884)
Utilization of provision	88,074
Balances as of December 31, 2021	$ (41,810)

As mentioned in Note 6, for the determination of the estimation of doubtful accounts, the Entity performs an aging analysis of balances by client and is assigned based on experience an estimation percentage. This first analysis gives an indication of impairment; Subsequently, an analysis of the financial situation of all the clients included is carried out to determine which are the accounts that present an impairment according to the expected credit loss model and on these the corresponding estimate is recorded.

7. Inventories

	2021	2020
Raw materials and others	$ 509,900	$ 470,544
Work in progress	523,564	465,943
Finished goods	812,706	1,146,492
	1,846,170	2,082,979
Merchandise in transit	15,115	106,683
	$ 1,861,285	$ 2,189,662

The Entity estimates possible impairment losses on inventories for obsolescence and for slow moving inventories, which are determined, based on the age of the inventory.

The movements in the allowance for obsolescence and slow-moving inventory reduction are presented below:

	2021	2020
Balance at the beginning of the year	$ (62,540)	$ (99,283)
Estimation for the period	(11,803)	(6,194)
Cancellations and applications	22,111	24,807
Sale of segment - Milano	-	18,130
Balance at the end of the year	$ (52,232)	$ (62,540)

The movements in the allowance for obsolescence are classified into finished goods.

The cost of inventories recognized as an expense during the year in respect of continuing operations was $11,534,150 and $9,511,174 for the years ended December 31, 2021 and 2020, respectively.

8. Property, plant and equipment

Reconciliation of beginning and ending balances as of December 31, 2021 and 2020, is as follows:

	Balance as of January 1, 2021	Additions	Disposals	Segments of sales	Transferred assets	Translation effect	Balances as of December 31, 2021
Investment:							
Land	$ 2,674,686	$ -	$ (12,126)	$ (159,977)	$ -	$ (74,795)	$ 2,427,788
Building and installations	5,650,643	-	-	(1,754,702)	1,838	167,353	4,065,132
Industrial machinery and equipment	32,825,625	81,326	(34,267)	-	(53,850)	(9,657,837)	23,160,997
Office furniture and equipment	746,963	96	-	(686,619)	-	24,866	85,306
Transportation equipment	93,597	1,646	(5,817)	(13,515)	595	(888)	75,618
Computer equipment	476,189	11,425	(2,559)	(304,114)	8,316	34,213	223,470
Water treatment plants	17,885	-	-	-	-	(17,885)	-
Transfers available for sale [1]	(2,633,643)	-	-	2,633,643	-	-	-
Projects-in-progress	918,245	53,216	-	(325)	(128,160)	(30)	842,946
Total investments	$ 40,770,190	$ 147,709	$ (54,769)	$ (285,609)	$ (171,261)	$ (9,525,003)	$ 30,881,257

	Balance as of January 1, 2021	Additions	Disposals	Segments of sales	Transferred assets	Translation effect	Balances as of December 31, 2021
Depreciation:							
Building and installations	$ (3,467,198)	$ (75,638)	$ -	$ 1,528,631	$ -	$ (68,504)	$ (2,082,709)
Industrial machinery and equipment	(28,795,231)	(335,531)	5,525	-	-	9,379,543	(19,745,694)
Office furniture and equipment	(494,625)	(2,948)	-	453,732	-	(21,885)	(65,726)
Transportation equipment	(75,139)	(7,163)	5,817	6,604	-	(445)	(70,326)
Computer equipment	(396,979)	(8,806)	1,894	225,500	-	(17,130)	(195,521)
Water treatment plants	(15,626)	(650)	-	-	-	12,265	(4,011)
Transfers available for sale [1]	1,923,350	-	-	(1,923,350)	-	-	-
Total accumulated depreciation	(31,321,448)	(430,736)	13,236	291,117	-	9,283,844	(22,163,987)
Investment net	$ 9,448,742	$ (283,027)	$ (41,533)	$ 5,508	$ (171,261)	$ (241,159)	$ 8,717,270

	Balance as of January 1, 2020	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2020
Investment:						
Land	$ 2,657,533	$ 1,771	$ -	$ (3,550)	$ 18,932	$ 2,674,686
Building and installations	5,637,000	6,515	(6,890)	(2,286)	16,304	5,650,643
Industrial machinery and equipment	32,742,583	58,746	(27,858)	35,148	17,006	32,825,625
Office furniture and equipment	742,303	2,234	(2,150)	-	4,576	746,963
Transportation equipment	97,689	632	(4,224)	(667)	167	93,597
Computer equipment	465,332	10,573	(3,252)	(3,727)	7,263	476,189
Water treatment plants	17,885	-	-	-	-	17,885
Transfers available for sale [1]	-	-	-	(2,633,643)	-	(2,633,643)
Projects-in-progress	725,161	232,395	(34)	(24,918)	(14,359)	918,245
Total investments	43,085,486	312,866	(44,408)	(2,633,643)	49,889	40,770,190

	Balance as of January 1, 2020	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2020
Depreciation:						
Building and installations	(3,248,606)	$ (89,104)	$ -	$ (113,099)	$ (16,389)	$ (3,467,198)
Industrial machinery and equipment	(28,447,820)	(355,085)	8,588	269	(1,183)	(28,795,231)
Office furniture and equipment	(550,354)	(9,636)	-	67,949	(2,584)	(494,625)
Transportation equipment	(82,021)	(5,924)	4,141	8,762	(97)	(75,139)
Computer equipment	(412,206)	(19,109)	3,112	36,119	(4,895)	(396,979)
Water treatment plants	(14,972)	(654)	-	-	-	(15,626)
Transfers available for sale [1]	-	-	-	1,923,350	-	1,923,350
Total accumulated depreciation	(32,755,979)	(479,512)	15,841	1,923,350	(25,148)	(31,321,448)
Investment net	$ 10,329,507	$ (166,646)	$ (28,567)	$ (710,293)	$ 24,741	$ 9,448,742

(1) The balances of Property, plant and equipment have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

9. Investment properties

Fair value of investment properties is as follows:

	2021	2020
Land	$ 940,570	$ 1,344,814
Building and installations	74,467	222,243
Total	$ 1,015,037	$ 1,567,057

The fair value of investment properties is determined by independent appraisers who have applied the market approach and the residual method to determine the valuation of land and the replacement method for buildings and installations. The method used is as follows:

a. The market approach was determined by examining the supply and demand of similar land, operations performed and valuations in the sector and similar areas, the study of land values with comparable properties considering, potential development and localization, and consulting the database of the Market Estate Association (Colombian rated entity).

b. The residual method was applied by estimating the value that a builder who develops a project, in the light of existing regulations and taking into account market factors, would be willing to pay.

c. The replacement method is based on the cost of building an asset with similar characteristics, considering actual physical conditions of the asset.

The movements presented in investment properties are as follows:

	Balances as of January 1, 2021	Fair value adjustment	Translation effect	Balances as of December 31, 2021
Land	$ 1,344,814	$ (258,729)	$ (145,515)	$ 940,570
Building and installations	222,243	(136,248)	(11,528)	74,467
Total	$ 1,567,057	$ (394,977)	$ (157,043)	$ 1,015,037

	Balances as of January 1, 2020	Fair value adjustment	Translation effect	Balances as of December 31, 2020
Land	$ 1,585,750	$ (258,950)	$ 18,014	$ 1,344,814
Building and installations	220,441	(691)	2,493	222,243
Total	$ 1,806,191	$ (259,641)	$ 20,507	$ 1,567,057

The lease income generated by investment properties in 2021 and 2020 were $25,497 and $27,834, respectively. To keep the investment properties in working condition, improvements and maintenance were necessary, resulting in expenditures of $1,302 and $1,523, in 2021 and 2020, respectively.

10. Right-of-use assets

The Entity leases various assets, including real estate, plant and equipment, technology equipment and transportation equipment. The average lease term is 15 years.

The Entity has the option to purchase certain manufacturing equipment for a nominal amount at the end of the lease period. The Entity's obligations are insured by the lessor's title to the assets leased in said leases.

	Building	Shops	Total
Cost:			
Balances as of January 1, 2021	$ 855,097	$ 56,341	$ 911,438
Additions	11,315	-	11,315
Disposals	(309,390)	(56,341)	(365,731)
Balances as of December 31, 2021	$ 557,022	$ -	$ 557,022
Accumulated depreciation:			
Balances as of January 1, 2021	$ (204,590)	$ (4,512)	$ (209,102)
Depreciation for the year	(18,865)	-	(18,865)
Disposals	-	4,512	4,512
Balances as of December 31, 2021	$ (223,455)	$ -	$ (223,455)
	$ 333,567	$ -	$ 333,567

	Building	Shops	Total
Cost:			
Balances as of January 1, 2020	$ 855,097	$ 2,986,390	$ 3,841,487
Updates	-	3,795	3,795
Additions	-	52,546	52,546
Transfers to available for sale	-	(2,986,390)	(2,986,390)
Balances as of December 31, 2020	$ 855,097	$ 56,341	$ 911,438
Accumulated depreciation:			
Balances as of January 1, 2020	$ (98,333)	$ (200,805)	$ (299,138)
Depreciation for the year	(106,257)	(4,512)	(110,769)
Transfers to available for sale	-	200,805	200,805
Balances as of December 31, 2020	$ (204,590)	$ (4,512)	$ (209,102)
	$ 650,507	$ 51,829	$ 702,336

Amounts recognized as expenses in results:

Amounts recognized in the consolidated statement of loss	2021	2020
Depreciation right-of-use asset	$ 18,865	$ 110,769
Interest on lease liability	17,833	296,931
Lease payments	71,527	307,986

Total cash outflows for leases amounted was $53,694 and $707,452 in 2021 and 2020, respectively.

The discount rates used by Management to determine the right-of-use assets are as follows:

Building	10.80% and 7.23%
Shops	10.00%

11. Other assets

	2021	2020
Guarantee deposits	$ -	$ 7,468
Other	3,735	6,992
Other permanent investments	-	10,039
Total	$ 3,735	$ 24,499

The balances of goodwill, brands and development in stores have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

12. Long-term debt

As of December 31, 2021 and 2020, long-term debt consists of the following:

Bank	Type	Currency	Rate	Maturity	2021	2020
Senior Notes (a)	Offering Notes	US dollars	8.875%	2022	$ 4,528,370	$ 6,383,584
BNP Paribas Fortis Bank SA/ NV	Simple credit	US dollars	LIBOR plus 2.47%	2022	15,884	76,973
Banco Santander	Simple credit	US dollars	LIBOR, plus 4.05%	2021	-	35,179
					4,544,254	6,495,736
				Less - Current portion of long-term debt	4,544,254	112,152
				Less - Current portion of debt issuance expenses	(10,832)	(30,808)
				Current portion of long-term debt, net	4,533,422	81,344
				Long - term debt	-	6,383,584
				Less- debt issuance costs	-	(10,832)
				Long-term debt, net	$ -	$ 6,372,752

a. Notes for US $320 million, accruing interest at a fixed rate of 8.875%, issued in April 2017, and maturing in April 2022. Accrues interest every 180 days in the months of April and October. Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Milano Inmobiliaria, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V. Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V., Grupo Milano, S.A. de C.V., Milano Operadora, S.A. de C.V., Milano Representaciones, S.A. de C.V., Milano Servicios Corporativos, S.A. de C.V., Kaltex Internacional, S.A. de C.V., Kaltex America, Inc. and Revman International, Inc.

b. Most of these loans are guaranteed by accounts receivables, inventories, property, plant and equipment owned by the Entity and its subsidiaries.

c. Long-term debt maturities as of December 31, 2021 are as follows:

Year	2021
2022	$ 4,544,254

A. Maintain stockholders' equity of no less than $4,674,000;
B. Maintain a debt to EBITDA no less than 4.5.
C. Maintain a consolidated interest coverage ratio of no greater than 3.0.
D. Maintain a debt to equity no less than 1.0.

d. The Entity as of December 31, 2021 and 2020 defaulted on these obligations; the long-term debt for $4,674,000 and 112,152 was reclassified as a current liability.

e. *Reconciliation of liabilities arising from financing activities*

The table below details changes in the Entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Entity's consolidated statement of cash flows as cash flows from financing activities.

	As of January 1, 2021	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2021
Bank loans (Note 13 and 14)	$ 6,454,096	$ -	$ (2,158,186)	$ 237,512	$ 4,533,422
Loans from related parties (Note 20)	1,615,244	1,542,908	(381,419)	(114,251)	2,662,482
	$ 8,069,340	$ 1,542,908	$ (2,539,605)	$ 123,261	$ 7,195,904

	As of January 1, 2020	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2020
Bank loans (Note 13 and 14)	$ 6,252,792	$ 101,876	$ (68,164)	$ 167,592	$ 6,454,096
Loans from related parties (Note 20)	1,582,619	13,000	(127,433)	147,058	1,615,244
	$ 7,835,411	$ 114,876	$ (195,597)	$ 314,650	$ 8,069,340

(i) Other changes include exchange fluctuation and expenses associated with issuance costs recognized in accordance with the effective cost method.

13. Lease liability

	2021	2020
Maturity analysis:		
Year 1	$ 78,552	$ 78,232
Year 2	75,807	72,053
Year 3	74,294	72,005
Year 4	20,650	31,649
Onwards	125,649	450,450
	374,952	704,389
Less: unearned interest	(16,528)	(28,341)
	$ 358,424	$ 676,048
Analyzed as:		
Current	$ 78,552	$ 78,232
Non-current	279,872	597,816
	$ 358,424	$ 676,048

Amounts recognized in the consolidated statement income	2021	2020
Depreciation expense of the asset for use rights	$ 18,865	$ 110,769
Finance expense caused by lease liabilities	17,833	296931

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury Department.

14. Other accounts payable and accrued liabilities

Balances as of December 31, are as follows:

	2021	2020
Payables for services	$ 635,472	$ 707,758
Payables for machinery	104,643	152,435
Provisions (i)	98,378	117,859
Other taxes payable	1,078,614	710,277
Interest payable	170,613	254,928
	$ 2,087,720	$ 1,943,257

(i) Provisions represent amounts accrued during 2021 and 2020, or contracted services of the following nature, attributable the financial year, which are expected to be paid within a period not exceeding one year. The final amounts to be paid and the timing of those outflows of economic resources involve uncertainties and could therefore vary.

	2021			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 45,718	$ 8,100	$ (28,184)	$ 25,634
Labor provision	38,971	6,876	(23,996)	21,851
Other	33,170	41,219	(23,496)	50,893
	$ 117,859	$ 56,195	$ (75,676)	$ 98,378

	2020			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 46,954	$ 8,100	$ (9,336)	$ 45,718
Labor provision	39,547	6,876	(7,452)	38,971
Other	67,832	101,534	(136,196)	33,170
	$ 154,333	$ 116,510	$ (152,984)	$ 117,859

15. Retirement employee benefits

Defined benefit plans

The Entity handles a plan that covers seniority premiums, which consist of a single payment of 12 days per every year worked based on final salary, limited to twice the minimum wage established by law year. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the projected unit credit method.

The plans typically expose the Entity to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance Entity.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2020 by independent actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2021 %	2020 %
Discount rate	7.25	7.17
Expected rate of salary increase	4.75	4.75
Inflation rate	3.75	3.75

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows.

	2021	2020
Service cost:		
Labor cost of current service	$ 21,875	$ 23,707
Net interest expense	30,500	30,274
Components of defined benefit costs recognized in profit or loss	$ 52,375	$ 53,981
Remeasurement on the net defined benefit liability:		
Actuarial gains arising from changes in financial assumptions	$ (37,474)	$ (3,773)
Components of defined benefit costs recognized in other comprehensive income	$ (37,474)	$ (3,773)

Components of defined benefit costs recognized in other comprehensive income:

	2021	2020
Remeasurement on the net defined benefit liability	$ (37,474)	$ (3,773)
Deferred tax	11,242	1,132
Components of defined benefit costs recognized in other comprehensive income	$ (26,232)	$ (2,641)

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss and other comprehensive loss within administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive loss.

The amount included in the consolidated statements of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2021	2020
Present value of funded defined benefit obligation	$ 569,630	$ 577,539

Movements in the present value of the defined benefit obligation in the current year were as follows.

	2021	2020
Opening defined benefit obligation	$ (577,539)	$ (545,617)
Current service cost	(21,875)	(23,707)
Interest cost	(30,500)	(30,274)
Remeasurement gains	37,474	3,773
Reduction effect in the obligations	-	(105)
Benefits paid	22,810	4,364
Transfers available for sale	-	14,027
Closing defined benefit obligation	$ (569,630)	$ (577,539)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would not have significant changes.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16. Financial instruments

The Entity is exposed to market risks such as interest rate risk and foreign currency risk, as well as credit risk and liquidity risk, all of which are managed centrally by the corporate treasury. Compliance with these policies and exposure limits are reviewed by internal audit on an ongoing basis.

a. ***Classes of financial instruments***

The different categories of financial instruments and their amounts as of December 31, 2021 and 2020 are shown below:

	2021	2020
Financial assets		
Cash and cash equivalents	$ 225,755	$ 180,392
Accounts receivable, net	1,742,594	1,617,696
Accounts receivable from related parties	2,383	228,528
Financial liabilities		
At amortized cost:		
Bank loans, current and long-term debt	$ 4,533,422	$ 6,454,096
Accounts payable to suppliers	1,677,881	1,932,882
Accounts payable to related parties	3,133,762	3,677,231
Other accounts payable and accrued liabilities	740,115	860,193

b. ***Management of capital risk***

The Entity manages its capital to ensure that it will continue as an ongoing business, while also maximizing the return to its shareholders through optimization of its capital balance through continuous monitoring of the debt/capital structure. The Entity's capital structure consists of net debt (bank loans as detailed in Note 12) and the Entity's equity (comprising issued contributed capital, reserves and deficit accumulated in Note 18). The Entity is not subject to any externally imposed capital requirements.

The Entity's management reviews its capital structure and borrowing costs and their relation to EBITDA (earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization) on a monthly basis, at the time it presents financial projections as part of the business plan to the Board of Directors and shareholders of Entity.

The rate of net indebtedness of the Entity is as follows:

	2021	2020
Debt with financial institutions	$ 4,533,422	$ 6,454,096
Cash and cash equivalents	(225,755)	(180,392)
Net debt with financial institutions	$ 4,307,667	$ 6,273,704
EBITDA	$ 1,960,756	$ 857,605
Net debt to EBITDA	$ 2.20	7.32
EBITDA	$ 1,960,756	$ 857,605
Interest incurred on debt	$ 694,042	$ 1,023,497
Interest coverage index	0.35	1.19

c. ***Financial risk management objectives***

The Entity Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyses exposures by degree and magnitude of risks.

These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

ii) ***Foreign currency risk management***

The functional currency of the majority of the subsidiaries of the Entity is the Mexican peso. The Entity is exposed to foreign exchange risk related to the Mexican peso as a result of financing obtained in U.S. dollars.

The Entity also has monetary assets and liabilities denominated in foreign currencies, mainly the US dollar, Euro, Nicaraguan Cordoba, Colombian peso and Swiss Franc, which exposes it to currency risk. However, this risk is hedged by the operations of the Entity in those respective countries.

Carrying values of assets and liabilities denominated in foreign currencies to which the Entity is mainly exposed are as follows (in thousands):

	Liabilities		Assets	
	2021	**2020**	**2021**	**2020**
U.S. Dollar	449,115	681,807	144,146	117,699
Euro	2,786	3,289	3,082	4,670
Colombian peso	60,936,202	72,229,229	6,814,132	10,068,146
Franco Suizo	97	-	219	-

The following table details the Entity's sensitivity to an increase and decrease of 10% in pesos against the relevant foreign currencies. The 10% is the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period for a 10% change in exchange rates. A positive number (as shown in the table below) indicates an increase in the results where the peso is strengthened by 10% against the relevant currency. If a weakening of 10% of the peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative (amounts in thousands):

	2021	**2020**
U.S. Dollar	627,732	1,125,322
Euro	6,889	33,640
Colombian peso	24,724	32,793
Franco Suizo	2,742	-

Exchange rates	2021	2020	July 29, 2022
U.S. Dollar	$ 20.4672	$ 19.9487	$ 20.3778
Euro	$ 23.2753	$ 24.3593	$ 20.6468
Colombian peso	$ 198.5850	$ 172.3250	$ 216.8894

ii) ***Interest rate risk management***

The Entity is exposed to interest rate risk because it has financial debt that accrues interest at variable rates. The Entity has short-term loans mainly for working capital as well as for certain projects, the proceeds of which will be used to pay the related debt.

Exposure of the Entity to interest rate risk relates primarily to the LIBOR on financial liabilities. Sensitivity analyses are prepared by the Entity based on the net exposure to floating interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, net income (loss) ended December 31, 2021 and 2020, would increase/decrease $4,503 and $4,503, respectively.

e. ***Credit risk management***

The note 6 details the Entity's maximum exposure to credit risk and the measurement bases used to determine ECL.

In order to minimize credit risk, the Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Entity uses other publicly available financial information and its own trading records to rate its major customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Before accepting any new customer, a dedicated team responsible for the determination of credit limits uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and approved twice a year by the risk management committee. The 80% of the trade receivables have the best credit scoring attributable under the external credit scoring system used by the Entity.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Entity reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Entity consider that the Entity's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

(i) ***Overview of the Entity's exposure to credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. As of December 31, 2021 the Entity maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Entity due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Entity arises from:

- The carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the accumulated value of the completed transactions is distributed among the approved counterparties. The credit exposure is controlled by the counterparty limits that are reviewed and approved by the Entity Credit Committee.

Accounts receivable from customers are composed of a large number of clients distributed through different industries and geographic areas. Before granting credit to any client, a financial evaluation is performed and credit references are requested; finally, the continuous evaluation of the credit is made on the financial condition of the accounts receivable, when appropriate. The Entity considers that its potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of expected credit losses due to impairment with respect to accounts receivable (see Note 6).

The Entity’s current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Entity has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Entity’s financial assets, contract assets and financial guarantee contracts, as well as the Entity’s maximum exposure to credit risk by credit risk rating grades:

December 31, 2021	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	1,784,404	(41,810)	1,742,594
Sundry debtors	Performing	12-month	56,295	-	56,295
Accounts receivable from related parties	Performing	12-month	2,383	-	2,383

December 31, 2020	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	1,747,580	(129,884)	1,617,696
Sundry debtors	Performing	12-month	5,717	-	5,717
Accounts receivable from related parties	Performing	12-month	228,528	-	228,528

a. For trade receivables, the Entity has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Entity determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

b. ***Liquidity risk management***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

The following tables detail the Entity's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

As of December 31, 2021	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.43%	$ 4,533,422	$ -	$ -	$ 4,533,422
Interest payable		281,546	-	-	281,546
Accounts payable to suppliers	-	1,677,881	-	-	1,677,881
Due to related parties	-	488,339	2,662,482	-	3,150,821
Lease liability	-	78,552	232,775	125,649	436,976
Other financial liabilities	-	740,115	-	-	740,115
Total		$ 7,799,855	$ 2,895,257	$ 125,649	$ 10,820,761

As of December 31, 2020	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.43%	$ 198,634	$ 6,437,904	$ -	$ 6,636,538
Interest payable		568,811	290,556	-	859,367
Accounts payable to suppliers	-	1,932,882	-	-	1,932,882
Due to related parties	-	401,238	3,506,522	-	3,907,760
Lease liability	-	78,232	739,464	31,649	849,345
Other financial liabilities	-	860,193	-	-	860,193
Total		$ 4,039,990	$ 10,974,446	$ 31,649	$ 15,046,085

17. Fair value measurements of financial instruments

Except as detailed in the following table, the Entity's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value due to their short-term maturities.

a. The carrying and fair value of long-term debt is as follows as of December 31:

	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
Debt	$ 4,533,422	$ 4,533,422	$ 6,454,096	$ 5,040,916

b. Fair value hierarchy

There are no financial instruments that are measured at fair value subsequent to initial recognition. However, the fair value of financial instruments measured at amortized cost is presented in the table above. A description on the extent to which the fair value is observable below:

- Level 1 are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the period, there were no transfers between Level 1, 2 and 3.

The fair value of long-term debt is calculated using a discounted cash flow method with an approximated market rate of the current debt cost based on comparable information in the market for entities with a similar risk profile. The level of fair value calculation is level 2.

18. Stockholders' equity

a. As of December 31, 2021 and 2020, capital stock is represented by:

	Number of shares	Amount
Fixed portion:		
Series "A"	50,000	$ 50
Variable portion:		
Series "B"	4,017,940,410	4,017,940
Total	4,017,990,410	$ 4,017,990

Capital stock consists of common registered shares with a par value of one peso per share. Shares of Series "A" can be acquired only by Mexican citizens. Variable capital is unlimited.

b. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved. As of December 31, 2021 and 2020, the Entity has not created this reserve.

c. Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

d. The balances of the stockholders' equity tax accounts as of December 31, are as follows:

	2021	2020
Contributed capital account	$ 8,336,051	$ 7,764,932
Net account tax profit at the end 2013 (CUFIN)	959,456	894,280
Total	$ 9,295,507	$ 8,659,212

19. Equity and earnings of non-controlling interest

a. The following table lists the subsidiaries in which a significant non-controlling interest exists. The amounts shown as of December 31, 2021 and 2020, are presented before eliminations:

Subsidiary	Location	Proportion of the non-controlling interests with voting rights		Income of the period allocated to non-controlling interests		Equity of non-controlling interests	
		2021	2020	2021	2020	2021	2020
Coltejer, S.A.	Colombia	39.74%	39.74%	$ (16,122)	$ (496,763)	$ 477,615	$ 600,649
Kaltex Textiles, S.A. de C.V.	Mexico	26.30%	26.30%	71,782	(105,278)	909,621	730,927
Total				$ 55,660	$ (602,041)	$ 1,387,236	$ 1,331,576

b. Subsidiaries condensed financial statements in which a material non-controlling interest exists:

	2021	2020
Coltejer, S.A.:		
Total assets	$ 3,941,364	$ 6,715,823
Total liabilities	$ 2,739,513	$ 4,001,631
Net assets	$ 1,201,851	$ 2,714,192
Total revenues	$ 95,132	$ 432,400
Net loss for the year	$ (635,841)	$ (276,381)
Kaltex Textiles, S.A. de C.V.:		
Total assets	$ 14,811,375	$ 13,200,577
Total liabilities	$ 11,361,551	$ 10,407,719
Net assets	$ 3,449,824	$ 2,792,858
Total revenues	$ 11,696,209	$ 8,198,614
Net gain (loss) for the year	$ 272,937	$ (400,297)

20. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

a. Balances to related parties are as follows:

	2021	2020
Accounts receivable -		
Grupo MCM, S.A. de C.V.	$ -	$ 224,318
Soluciones Financieras CCK, S.A. de C.V. SOFOM	-	1,409
Operadora Circulo CCK, S.A. de C.V.	2,088	2,088
Inmobiliaria Circulo CCK, S.A. de C.V.	-	671
Other	295	42
	$ 2,383	$ 228,528

	2021	2020
Accounts payable		
Kaltex Inmobiliaria, S.A. de C.V.	$ 307,116	$ 225,723
Inmobiliaria Los Mejia, S.A. de C.V.	74,930	74,005
Inmobiliaria Emilio Castelar, S.A. de C.V.	40,519	39,028
Inmobiliaria Baz Rivera, S.A. de C.V.	13,912	19,537
Rancho Los Mejias, S.A. de C.V.	20,980	21,880
Inmobiliaria Barrientos, S.A. de C.V.	20,342	13,363
Inmobiliaria Mago, S.A. de C.V.	3,669	1,101
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	6,871	6,601
	$ 488,339	$ 401,238

	2021	2020
Long-term accounts payable-		
Grupo MCM Colombia, S.A. (1)		
Long-term debt	$ 1,543,599	$ 1,233,825
Interest payable	-	59,055
Grupo MCM, S.A. de C.V. (2)		
Long-term debt	-	207,865
Acquisition of shares	-	1,038,928
Interest payable		92,338
Vigoris, S.A. de C.V. (3)		
Long-term debt	-	86,777
Acquisition of shares	-	195,130
Interest payable	-	40,172
Mosjak, S.A. de C.V. (4)		
Long-term debt	1,101,824	86,777
Acquisition of shares	-	196,162
Interest payable	-	38,964
	$ 2,645,423	$ 3,275,993

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful receivables in respect of the amounts owed by related parties.

(1) As of December 31, 2021 and 2020, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal US $65 million, accruing interests at a rate of 10%, with maturity in 2022.

(2) As of December 31, 2020, the balance payable in the long term to Grupo MCM, S.A. de C.V., is composed of: accounts payable for the acquisition of non-controlling of Grupo Milano for 52 million dollars, accruing interest at a rate of 3.60%, with maturity in 2022, and a loan with principal for US $10.4 million, accruing interest at a rate of 3.10%, with indefinite maturity.

(3) As of December 31, 2020, the long-term balance payable to Vigoris, S.A. de C.V., is composed of a loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with maturity in 2022.

(4) As of December 31, 2020, the long-term balance payable to Mosjak, S.A. de CV, is composed loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with a maturity in 2022.

b. Transactions with related parties, carried out in the ordinary course of business were as follows:

	2021	2020
Revenues -		
Other income	$ 21,040	$ 13,527
Expenses -		
Lease income	$ 19,439	$ 16,442
Interest expense	13,422	25,471

21. Discontinued operations

On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.), whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which was be paid in June US $40 million and in September US $26. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020 present the results associated with Milano as discontinued operations.

Condensed information related to the consolidated income statement of discontinued operations for the years ended December 31, 2020:

	2020
Revenues	$ 2,085,574
Cost of sales	1,331,778
Gross profit	753,796
Selling and administrative expenses	766,898
Other income, net	(82,728)
Operating income	69,626
Financial expenses, net	286,216
Foreign exchange loss, net	(7,899)
Loss before taxes	(208,691)
Income tax benefit	(62,103)
Net loss	$ (146,588)

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2020
Total current assets	$ 1,557,937
Total non-current assets	5,007,634
Total assets classified as held for sale	$ 6,565,571
Total current liabilities	$ 1,355,798
Total non - current liabilities	2,810,143
Total liabilities classified as held for sale	$ 4,165,941

22. Costs and expenditures by nature

	2021	2020
Cost of sales:		
Wages and salaries	$ 1,180,465	$ 1,148,902
Employee benefits	778,765	781,104
Profit sharing	108,685	30,014
Raw material	6,736,536	3,936,347
Manufacturing expenses	-	106,473
Finished goods	-	881,372
Freight	100,468	232,796
Maintenance	380,374	426,790
Leasing	3,310	25,534
Electricity	897,004	742,098
Fuels and lubricants	318,484	390,822
Logistics services	48,408	100,631
Customs charges	68,006	51,146
Other	505,036	168,118
Subtotal	11,125,541	9,022,147
Depreciation and amortization	403,241	438,588
Depreciation of right-of-use assets	5,368	50,439
Total	$ 11,534,150	$ 9,511,174
Selling expenses:		
Wages and salaries	$ 148,750	$ 184,674
Employee benefits	37,496	51,015
Profit sharing	12,262	3,292
Publicity	11,325	-
Travel expenses	2,986	3,352
Insurance	7,447	8,326
Freight	-	6,158
Fees	6,200	6,105
Maintenance	4,068	4,739
Leasing	7,712	2,815
Electricity	1,029	1,293
Water	216	265
Bank commissions	17,329	23,758
Royalties	81,283	204,198
Sales commissions	31,785	35,242
Other	2,922	5,813
Subtotal	372,810	541,045
Depreciation and amortization	2,961	880
Depreciation of right-of-use assets	13,497	60,074
Total	$ 389,268	$ 601,999

	2021	2020
Administrative expenses:		
Wages and salaries	$ 221,283	$ 303,677
Employee benefits	62,989	89,120
Profit sharing	13,823	5,486
Travel expenses	2,249	3,144
Insurance	16,468	16,538
Freight	92	-
Fees	81,456	63,874
Maintenance	48,815	53,258
Leasing	76,063	19,598
Phone	14,601	15,765
Electricity	3,233	4,150
Bank commissions	1,647	2,538
Other	118,134	117,845
Subtotal	660,853	694,993
Depreciation and amortization	24,534	40,044
Depreciation of right-of-use asset	-	256
Total	$ 685,387	$ 735,293

23. Other (income) expenses

	2021	2020
Income on sale of machinery and equipment	$ (8,866)	$ (27,296)
Fair value adjustment of investment properties	25,497	283,034
Lease income	(21,245)	53,003
Loss (income) from sales of waste	78,441	(9,694)
Recovery of insurance	(12,262)	(14,846)
Amortization of debt issuance costs	30,808	28,093
Income on sale of REVMAN	(954,920)	-
Other (income) expenses	70,958	33,823
	$ (791,589)	$ 346,117

24. Income taxes

The Entity and some of its subsidiaries are located in Mexico; certain other subsidiaries are located throughout the United States of America (USA), Colombia and Nicaragua. It is important to mention that although the tax laws and regulations applicable in the different countries may differ considerably, there are similar permanent elements, such as non-deductible and non-taxable items. As a result, the Entity has decided to use the Mexican income tax (ISR) rate of 30% to reconcile its effective tax rate, due to the fact that the majority of the earnings are taxed in Mexico through its direct subsidiary, Kaltex Textiles, S. A. de C. V. and Kaltex Comercial, S.A. de C.V.

Colombia

The Entity calculates income tax based on its presumptive income as defined in the Colombian tax law. The current income tax rate (IRC) is 33%.

Nicaragua

According to Decree No. 46-91 "Ley de Zonas Francas" Art. 20, the Entity has the following tax benefits:

a) 100% exemption from payment of tax on income generated by their activities in the "Zona Franca" (Free Zone) during the first ten years of operation and 60% from the eleventh year.

b) Exemption from payment of tax on sale of property under any title, including the tax on capital gains, if any, provided that the company closed its operations in this area, and the property continues to affect the regime Zona Franca.

c) Exemption from all taxes and customs duties and import-related consumption, applicable to the introduction into the country of raw materials, materials, equipment, machinery, matrix, or spare parts intended to enable the company for its operations in Zona Franca.

d) Exemption from customs duties on transport equipment, other vehicles loading passengers or service intended for normal use of the company in the Zona Franca.

e) Full exemption from excise taxes on sales or selective consumption.

f) Full exemption from municipal taxes.

g) Full exemption from export taxes on processed goods in the Zona Franca.

United States of America

In 2021 and 2020, the Entity was subject to a 21% income tax rate.

a. ***Income tax recognized in profit or loss***

	2021	2020
ISR:		
Current	$ 463,592	$ 218,711
Deferred	(43,155)	19,618
Income tax recognized in profit or loss before discontinued operations	$ 420,437	$ 238,329
Deferred of discontinued operations	-	62,103
Income tax recognized in profit or loss	$ 420,437	$ 300,432

Deferred tax recognized in other comprehensive income:

	2021	2020
Actuarial gain on employee benefits	$ (11,244)	$ (1,076)

b. ***Deferred tax balances:***

	2021	2020
Deferred income asset:		
Reserves and provisions	$ 57,726	$ 93,085
Employee benefits	170,889	173,262
PTU	42,923	18,845
Lease liability	-	7,886
Tax loss carryforwards	341	48,286
Customer prepayments	10,837	21,402
Investment properties	30,936	47,113
Other	97,589	-
Deferred income tax asset	411,241	409,879

	2021	2020
Deferred income liability:		
Property, plant and equipment	(1,757,033)	(1,811,559)
Lease liability	(7,457)	-
Other	(28,301)	(34,269)
Deferred income liability	(1,792,791)	(1,845,828)
Net deferred ISR liability	$ (1,381,550)	$ (1,435,949)

c. ***Deferred tax in statement of financial position***

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	2021	2020
Deferred tax asset	$ 76,923	$ 384,572
Deferred tax liability	(1,458,473)	(1,820,521)
Net deferred tax liability	$ (1,381,550)	$ (1,435,949)

The movements of net deferred tax liabilities during the year are as follows:

	2021	2020
Beginning balance	$ 1,435,949	$ 1,178,179
Deferred income tax recognized in profit or loss	(43,155)	19,618
Deferred of discontinued operations	-	239,228
Deferred income tax recognized in other comprehensive income	(11,244)	(1,076)
Ending balance	$ 1,381,550	$ 1,435,949

d. Following is a reconciliation of the statutory income tax rate and the effective rate on the income from continuing operations before income taxes:

	2021 %	2020 %
Income tax at statutory rate	30	30
Add (deduct) the effect of permanent differences:		
Non-deductible items	2	(3)
Adjustment for inflation	(1)	(4)
Deferred adjustment in subsidiary	5	(7)
Tax losses	84	(40)
Effective rate	120	(24)

e. In determining deferred income taxes as of December 31, 2021 and 2020, the effects of tax loss carryforwards were included for $1,136 and $247,853, respectively. In the determination of deferred income taxes as of December 31, 2020, the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to $26,070, as Management believes it is unlikely that the benefits of such losses will be realized.

Year of Expiration	Tax loss Expiration
2028	$ 1,136

25. Contingencies

At the date of these consolidated financial statements, the Entity has legal proceedings pending before the competent authorities, mainly related to foreign trade operations related to the recovery of accounts receivable and labor lawsuits.

The estimated amount of these lawsuits corresponds only to Milano as of December 31, 2020 is $99,710, of which there is a liability recorded of $6,000, which represents the Entity's best estimate of probable cash outflows should it receive an unfavorable decision in these legal proceedings. These amounts have been included under the labor provision heading in the consolidated statement of financial position. The Entity has made payments of $2,929 during 2020, related to these matters. While the results of these legal proceedings cannot be predicted with certainty, management of the Entity does not believe there is any legal proceeding that will result in an unfavorable ruling for the Entity in amounts greater than the provisions it has recognized as of such dates.

As December 31 the 2021, the Entity has Senior Notes of $220 million USD listed in Singapore issued in 2017.

On April 11, 2022, Kaltex defaulted on the payment of Senior Bond ("Bonds") principal, which constituted a default event. This event was timely reported by the Company to bondholders in accordance with applicable provisions and, to date, the Entity has not received any communications regarding debt acceleration. The full amount of $220 million USD was reclassified to short-term debt in the Consolidated Statement of Financial Position as of December 31, 2021, which resulted in short-term liabilities significantly exceeding current assets as of that date. From that point and to date, the Company has continued to discuss the terms and conditions under which the Senior Bonds will be paid and renegotiated with bondholders.

The Company's plan to partially pay the bonds and renegotiate the remaining bonds is as follows:

Part A – Bank Loan – To cover the partial bond settlement, the Company requested and obtained a bank loan of $100 million US dollars for a ten-year term with a three-month grace period, on which it may draw up to 40% in US dollars or up to a minimum of 60% in Mexican pesos at a 91-day TIIE rate + 285 basis points, with quarterly payments. At the date of these consolidated financial statements, the term sheet has been signed and the contract is being drawn up.

Part B Agreement with Bondholders -The remaining $118 million US dollars will be substituted through a "rollover" of the prior debt with the exchange of a new bond issuance. The Company identified five main bondholders, which jointly hold approximately 45% of the current bond. This bondholder group ("Ad Hoc Group") came together to negotiate refinancing terms.

The Company has a draft of the Transaction Support Agreement ("TSA"), which details the commitments of the Ad Hoc Group and Kaltex to refinance the current bond.

26. Segment information

The information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment is based on three segments as follows:

- Textile: manufacture and distribution of yarns and fabrics of all kinds of natural and synthetic fibers.
- Commercial: marketing of clothing, bedding for home and logistics services and the operation of clothing stores. Due to the sale of Milano, which is presented as a discontinued operation this segment has been eliminated for all periods presented.
- International: distribution for home products in USA, manufacture and distribution in Colombia for the fashion industry and our fabric and yarn distributor for South America.

a. The following segment information is presented based on the management approach as follows.

	2021			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 6,677,701	$ 14,228,359	$ (7,577,689)	$ 13,328,371
Gross profit	531,073	1,469,052	(205,904)	1,794,221
Sales expense	345,522	164,467	(120,721)	389,268
Administrative expenses	346,068	489,538	(150,219)	685,387
Other (income) expenses, net	(616,656)	(232,419)	57,486	(791,589)
Depreciation and amortization	38,947	391,789	-	430,734
Depreciation of right-of-use asset	-	18,865	-	18,865
EBITDA	495,086	1,458,120	7,550	1,960,756
Interest expenses, net	134,244	452,879	103,719	690,842
Exchange gain, net	(227,403)	(191,263)	(51,070)	(469,736)
Income tax	66,113	354,324	-	420,437
Consolidated net loss of continuing operations	28,379	49,000	(147,239)	(69,860)
Total assets	$ 6,128,548	$ 14,811,375	$ (5,927,914)	$ 15,012,009
Total liabilities	$ 3,558,153	$ 11,361,551	$ (904,868)	$ 14,014,836

	2020			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 6,968,605	$ 10,498,656	$ (6,005,354)	$ 11,461,907
Gross profit	1,236,038	843,921	(129,226)	1,950,733
Sales expense	580,967	137,874	(116,842)	601,999
Administrative expenses	428,649	439,869	(133,225)	735,293
Other expenses (income), net	(210,491)	13,658	542,950	346,117
Depreciation and amortization	61,856	417,656	-	479,512
Depreciation of right-of-use asset	-	110,769	-	110,769
EBITDA	498,769	780,340	(421,504)	857,605

	2020			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Interest expenses, net	215,663	563,306	217,598	996,567
Exchange gain, net	(55,222)	(311,044)	(157,866)	(524,132)
Income tax	29,424	17,864	253,144	300,432
Consolidated net loss of continuing operations	(284,378)	(645,959)	(623,470)	(1,553,807)
Total assets	$ 6,715,823	$ 14,580,516	$ 2,477,129	$ 23,773,468
Total liabilities	$ 4,001,631	$ 13,142,539	$ 4,191,119	$ 21,335,289

27. Authorization to issue the consolidated financial statements

On July 29, 2022, the issuance of the accompanying consolidated financial statements was authorized by C.P. Carlos Avelar Guerrero, the Entity's Legal Representative; consequently, they do not reflect events occurred after that date, and subject to the approval of the ordinary shareholders of the Entity, who may be modified in accordance with the provisions of the General Law of Commercial Companies.

* * * * * *

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2022 and December 31, 2021 and for the six-month periods ended June 30, 2022 and 2021, and Independent Accountant's Review Report Dated September 14, 2022

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2022 and December 31, 2021 and for the six-month periods ended June 30, 2022 and 2021

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Independent Accountant's Review Report to the Board of Directors and Stockholders of Grupo Kaltex, S.A. de C.V.

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim statement of financial position of Grupo Kaltex, S.A. de C. V. and Subsidiaries (the "Entity") as of June 30, 2022, and the unaudited condensed consolidated interim statements of comprehensive income, changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2022 and 2021.

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*. Our responsibility is to express a conclusion on these unaudited condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, of the International Standards on Auditing. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Material Uncertainty Related to Going Concern

The accompanying interim condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1a to the consolidated financial statements, the declaration of the COVID-19 pandemic in 2020 had a negative impact on the Entity's industry and operations. In the six-month periods ended June 30, 2022 and June 30, 2021, the Entity suffered consolidated net (losses) income of $(204,711) and $277,924, respectively; in addition, at those dates it has accumulated deficits of $4,237,114 and $3,851,230 and at June 30, 2022 and December 31, 2021 shows a negative working capital of $4,062,550 and $4,195,961. And it has lost all of its capital stock, which according to the General Law of Commercial Companies could be cause for dissolution of the Entity at the request of an interested third party. Additionally, the Entity has short-term financial obligations at June 30, 2022 and December 31, 2021 for $4,356,665 and $4,533,422.

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Deloitte.

According to the Entity's management, this situation has not affected, nor will affect the continuity of its operations; nor the Entity's operating plans for the year 2022 and subsequent years, which are described in Note 1d. The Entity's ability to continue as a going concern depends 100% on the successful implementation of Management's plans to improve operating results, to be able to exercise the loan resources with the Financial Institution and partially repay the Senior Bond, as well as the renegotiation of the Senior Bond remainder. Additionally, the majority shareholder has expressed through a letter of financial support and its clear intention to support the company, in the event that any negotiation is not completed. Our opinion has not been modified with respect to this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited condensed consolidated interim financial statements do not give a true and fair view of the consolidated financial position of the Entity as of June 30, 2022, and of their consolidated financial performance and their consolidated cash flows for the six-month periods ended June 30, 2022 and 2021, in accordance with IAS 34, *Interim Financial Reporting*.

Other matters

We have previously audited, in accordance with International Standards on Auditing, the consolidated financial statements of the Entity, as of and for the year ended December 31, 2021, and we expressed an unqualified opinion on such audited consolidated financial statements in our report dated July 29, 2022. Such consolidated financial statements are not included in this report, except for the condensed consolidated statement of financial position for comparative purposes. For a comprehensive understanding, the accompanying unaudited condensed consolidated interim financial statements, should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2021.

As mentioned in Note 2d to the consolidated financial statements, the declaration of the COVID-19 pandemic that emerged in 2020 had a major impact on the textile industry, adversely affecting the financial results of the Entity and, consequently, primarily on operating results and cash flows.

For the six months ended June 30, 2022, the operating income decreased 4% compared for the same period in 2021, mainly driven by the COVID-19 effects in the markets where the Entity operates.

The Entity has undertaken a series of internal actions to ensure the viability and the results of its operations will depend upon the continuity of the pandemic and the measures taken by different governments with respect to the operation of the Entity, as well as the ability of management to generate positive income and liquidity.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Juan Carlos Reynoso Degollado
Ciudad de México, México
September 14, 2022

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Financial Position

As of June 30, 2022 and December 31, 2021
(In thousands of Mexican pesos)

	Note	As of June 30, 2022	As of December 31, 2021
Assets			
Current assets:			
Cash and cash equivalents	5	$ 198,607	$ 225,755
Accounts receivables, net	6	2,863,147	2,488,871
Due from related parties	13	2,040	2,383
Inventories, net	7	1,947,971	1,861,285
Prepaid expenses		294,548	287,183
Total current assets		5,306,313	4,865,477
Non-current assets:			
Property, plant and equipment, net	8	8,398,963	8,717,270
Right-of-use asset		332,207	333,567
Investment properties		989,008	1,015,037
Deferred income tax		84,472	76,923
Other assets, net		3,644	3,735
Total non-current assets		9,808,294	10,146,532
Total assets		$ 15,114,607	$ 15,012,009
Liabilities and stockholders' equity			
Current liabilities:			
Bank loans and current portion of long-term debt	10	$ 4,356,665	$ 4,533,422
Accounts payable to suppliers		2,199,343	1,677,881
Short-term lease liability		79,172	78,552
Due to related parties	13	511,379	488,339
Other accounts payable and accrued liabilities		2,055,391	2,087,720
Direct employee benefits		98,065	143,076
Advance payments from customers		68,848	52,448
Total current liabilities		9,368,863	9,061,438
Non- current liabilities:			
Accounts payable to related parties	13	2,700,770	2,645,423
Lease liability		275,408	279,872
Retirement employee benefits		576,423	569,630
Deferred income tax		1,400,681	1,458,473
Total non - current liabilities		4,953,282	4,953,398
Total liabilities		14,322,145	14,014,836

	Note	As of June 30, 2022	As of December 31, 2021
Stockholders' equity:			
Capital stock	11	4,017,990	4,017,990
Accumulated deficit		(4,237,114)	(3,851,230)
Other comprehensive income		(651,781)	(556,823)
Controlling interest		(870,905)	(390,063)
Non-controlling interest	12	1,663,367	1,387,236
Total stockholders' equity		792,462	997,173
Total liabilities and stockholders' equity		$ 15,114,607	$ 15,012,009

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Income or Loss and Other Comprehensive Loss

For the six-month periods ended June 30, 2022 and 2021
(In thousands of Mexican pesos)

	Note	June 30, 2022	June 30, 2021
Net sales	16	$ 6,714,354	$ 6,960,625
Cost of sales	14	6,056,772	5,745,302
Gross profit		657,582	1,215,323
Sales expenses	14	96,069	283,174
Administrative expenses	14	242,915	397,366
Other expenses (income), net		25,557	(936,973)
Operating profit		293,041	1,471,756
Interest expense		299,139	426,077
Interest income		(1,463)	(1,898)
Exchange (gain) loss, net		(110,273)	81,621
Income before tax		105,638	965,956
Income tax expense		215,391	429,886
Net consolidated (loss) income		(109,753)	536,070
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on employee benefits		26,197	2,680
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		(121,155)	(260,826)
Other comprehensive loss for the period, net of income tax		(94,958)	(258,146)
Consolidated comprehensive (loss) income		$ (204,711)	$ 277,924
Consolidated net (loss) income attributable to:			
Controlling interest		$ (385,884)	$ 130,829
Non-controlling interest	12	276,131	405,241
		$ (109,753)	$ 536,070
Consolidated comprehensive net (loss) income attributable to:			
Controlling interest		$ (480,842)	$ (127,317)
Non-controlling interest	12	276,131	405,241
		$ (204,711)	$ 277,924

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2022 and 2021
(In thousands of Mexican pesos)

			Other comprehensive income (loss)				
	Capital stock	Accumulated deficit	Cumulative translation adjustment	Actuarial gain on employee benefits	Controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2021	$ 4,017,990	$ (2,926,080)	$ (50,142)	$ 64,835	$ 1,106,603	$ 1,331,576	$ 2,438,179
Comprehensive income (loss) for the period	-	130,829	(260,826)	2,680	(127,317)	405,241	277,924
Loss on sale of subsidiary to shareholders	-	(799,630)	-	-	(799,630)	-	(799,630)
Balances as of June 30, 2021	$ 4,017,990	$ (3,594,881)	$ (310,968)	$ 67,515	$ 179,656	$ 1,736,817	$ 1,916,473
Balances as of January 1, 2022	$ 4,017,990	$ (3,851,230)	$ (647,890)	$ 91,067	$ (390,063)	$ 1,387,236	$ 997,173
Comprehensive income (loss) for the period	-	(385,884)	(121,155)	26,197	(480,842)	276,131	(204,711)
Balances as of June 30, 2022	$ 4,017,990	$ (4,237,114)	$ (769,045)	$ 117,264	$ (870,905)	$ 1,663,367	$ 792,462

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Grupo Kaltex, S. A. de C. V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six-month periods ended June 30, 2022 and 2021
(In thousands of Mexican pesos)

	June 30, 2022	June 30, 2021
Cash flows from operating activities:		
Net consolidated (loss) income	$ (109,753)	$ 536,070
Adjustments for:		
Income tax expense recognized in net income (loss)	215,391	429,886
Depreciation and amortization	200,430	229,602
Gain on sale of Revman	-	(954,920)
Fair value adjustment of investment properties	-	(2,344)
Interest income	(1,463)	(1,898)
Interest expense	292,935	407,031
Interest expense lease liability	6,204	19,046
Unrealized foreign exchange, net	(43,498)	(45,066)
	560,246	617,407
Changes in working capital:		
(Increase) decrease in:		
Accounts receivables, net	(374,276)	(326,346)
Due from related parties	343	(334,087)
Inventories, net	(86,686)	382,896
Prepaid expenses	(7,365)	24,903
Assets available for sale	-	6,565,571
Receivable for sale of Revman	-	(1,306,978)
Other assets, net	91	7,680
Increase (decrease) in:		
Accounts payable to suppliers	521,462	(271,116)
Due to related parties	23,040	123,926
Other accounts payable and accrued liabilities	(82,511)	77,466
Direct employee benefits	(45,011)	955
Advance payments from customers	16,400	2,383
Income taxes paid	(301,538)	(27,000)
Employee retirement benefits	6,793	8,768
Net cash flows generated by operating activities	230,988	5,546,428
Cash flows from investing activities:		
Interest received	1,463	1,898
Disposals	69,723	51,359
Acquisition of property, plant and equipment	(78,203)	(72,444)
Proceeds from sale of Milano	-	(4,165,941)
Net cash flows used in investing activities	(7,017)	(4,185,128)

	June 30, 2022	June 30, 2021
Cash flows from financing activities:		
Proceeds from related parties	116,970	198,779
Loans paid to financial institutions	(57,361)	(1,253,647)
Lease payments and interest	(17,606)	(9,318)
Interest paid	(292,935)	(323,924)
Net cash flows used in financing activities	(250,932)	(1,388,110)
Net decrease in cash and cash equivalents	(26,961)	(71,510)
Effects of exchange rate changes on the balance of cash held in foreign currencies	(187)	(424)
Cash and cash equivalents at the beginning of the period	225,755	180,392
Cash and cash equivalents at the end of the period	$ 198,607	$ 108,458

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As of June 30, 2022 and December 31, 2021, and for the six-month periods ended June 30, 2022 and 2021
(In thousands of Mexican pesos, except where otherwise indicated)

1. Activities and significant events:

Grupo Kaltex, S. A. de C. V. and Subsidiaries ("Kaltex" or the "Entity") is the majority shareholder of a group of entities principally engaged in the manufacturing and distribution of yarns and fabrics of all kinds of natural and synthetic fibers, the maquila and marketing of clothing and bedding for home, logistics services, as well as the operation of clothing stores.

The address of the Entity is Av. Ingenieros Militares No. 2, Colonia Empleado Municipal, C.P. 53380, Naucalpan de Juárez, Estado de México, México.

Going concern –

The consolidated financial statements have been prepared on the basis of ongoing business, which assumes that the Entity will continue to operate as a going concern. To address this uncertainty, the Entity's management will continue to execute strategies to reduce costs and expenses annually and will continue with the restructuring plan initiated in 2021, which consisted of selling some less profitable plants (see subparagraphs a and b of this Note).

a. ***Implications resulted from COVID-19 –*** Net sales in 2022 decreased by 4% to $6,714,354, compared to $6,960,625 the previous year.

Earnings before taxes plus / minus interest, exchange rate fluctuations, and the effect of derivatives on financial costs, depreciation and amortization (EBITDA) in the period ended as of June 30, 2022 decreased 71% to reach $493,471, compared to $1,701,358 the previous period year. The decrease in EBITDA of $1,207,887 was mainly due to the sale of some assets.

b. ***Amortization of Senior Bonds 2021*** - During fiscal year 2021, the Company amortized $2,158.2 million of the Senior Notes and its accrued interest, from the sale of assets (see subsections a and b).

c. ***Senior Bond Default 2022*** - On April 11, 2022, Kaltex defaulted on the principal of the Senior Bonds ("Bonds"), which constituted a default event. This event was duly informed by the Company to the holders of the bonds in accordance with the applicable provisions, without the Entity having received any communication to date regarding the acceleration of the debt. The total amount of this debt was reclassified in the short term in the Consolidated Statement of Financial Position as of June 30, 2022 and December 31, 2021 for an amount of $4,356,665 and $4,533,422 million pesos, respectively, causing short-term liabilities to significantly exceed current assets at that date. From that time to date, the Company has continued in discussions with bondholders to determine the terms and conditions under which the Senior Bonds will be paid and renegotiated.

d. ***The Company's plan to partially repay the bonds and renegotiate the missing bonds is as follows:***

Part A - ***Bank Loan*** - In order to be able to face the partial liquidation of the bonds, the Entity requested and obtained a bank loan for a term of 10 years with 3 months of grace, for an amount of $100 million dollars, which can be disposed of either up to 40% in dollars or up to a minimum of 60% in national currency at an interest rate of TIIE at 91 days + 285 basis points, with quarterly payments.

As of the date of these condensed consolidated financial statements, the term sheet has already been signed and the contract is in the process of being prepared.

During the term of the contract, the Company must comply with the following points:

- Verification of resources and accounting movements;
- The Company may contract financial liabilities and/or pay dividends as long as it has the prior written approval of the Financial Institution;
- Submit quarterly internal financial statements (March, June, September and December) under IFRS signed by the legal representative;
- Submit annual financial statements including opinion and its notes in accordance with IFRS within 180 calendar days after the end of the year;
- Monitoring and rating will be done on the Consolidated Financial Statements of Manufacturas Kaltex and its subsidiaries;
- Keep insured the assets that guarantee the credit up to 100% of the value recognized for the purposes of coverage;
- Submit bank appraisals of the guarantees of movable and immovable property which must be updated every two years from the date of contracting and validity of the credit;
- It will be cause for early maturity when the Company, without prior written consent to the Financial Institution, modifies its shareholding structure and the foregoing implies that the current majority shareholders cease to control 51% of the shares.

Part B Agreement with Bondholders -The remaining $118 million will be replaced through a rollover of the previous debt with the exchange of a new bond issue. Among the bondholders, the Company identified five major bondholders, who together hold approximately 45% of the prevailing bond. This group of bondholders ("Ad Hoc Group") came together to negotiate the terms of the refinancing.

The Company has a draft Transaction Support Agreement ("TSA"), which details the commitments of the Ad Hoc Group and Kaltex to execute the refinancing of the current Bond.

In general terms, the TSA with the Ad Hoc Group consists of the total of $218 million dollars in force of the current Bond, $100 million dollars will be paid with the bank credit described above and the remaining $118 million through a bond exchange offer.

The proposed "term sheet" is included in the TSA, of which the main points to highlight are the following:

- The Ad Hoc Group will exchange at least $76 million of its current notes;
- The Mexican Investors group will redeem at least $22 million of its current notes;
- In the event that $118 million is not raised with the above points, up to $20 million additional dollars will come in from the "Funding Commitment" (Certain members of the Ad Hoc Group will sign a letter of commitment by which they are obliged to buy up to $20 million dollars of the new bond (New Money Notes). For its part, Kaltex undertakes to pay the said members 5% of the New Money Notes they have acquired. The maximum amount to pay for this concept is $1 million dollars).
- A public exchange offer will be made for a maximum amount of $118 million, which, in conjunction with the bank credit, will be used to pay off all of the current Notes.
- No haircut is done: For every $1,000 of capital exchanged, Bondholders will receive $1,000 of new notes plus accrued interest not paid since the date of default calculated at the contract rate of 8.875%.
- The Company will pay investors participating in the exchange a commission of 1.5% on the nominal amount of the Notes to be redeemed.
- The term that is currently being negotiated is 3 years with amortization at maturity.
- Fixed rate of 13% with semi-annual payments starting in October 2022 based on USD $118 million.

e. ***Condition of the loan with Financial Institution and Contract with Bondholders*** -For the disposition of the credit flow with the financial institution, the Company must present evidence of the binding document that Kaltex has the formalization, resources and / or financing for the payment of the difference between the amount of the Bond and the credit of the financial institution (agreement with Bondholders described in paragraph d part B).

f. ***Warranties*** **-** For the loan with the Senior Notes, the majority shareholders left as collateral properties in guarantee for $156 million dollars to meet the capacity requirement of 1.5: 1 of that contract; and for the TSA the properties under guarantee amount to an appraisal value of $241 million dollars.

g. ***Financial support*** - The majority shareholder has expressed through a letter of support his clear intention to support the company, in the event that any negotiation is not finalized.

h. ***Evaluation of the Possible Sale of Non-Strategic Businesses*** – After finalizing the renegotiation of the bonds for 118 million, they must be liquidated within a period of 3 years (as mentioned in paragraph d Part B). In order to obtain these flows, the company's medium-term plan is to sell non-strategic businesses, which are not included as guarantees in order to have a future option to sell them The successful sale of non-strategic businesses is a fundamental part of the fulfillment of the medium-term payment of the bonds.

Significant events

a. ***Sale of Milano*** - On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party MCM, S.A. de C.V., whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in 2021. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020 present the results associated with Milano as discontinued operations. With the resources obtained from said sale, the Entity reduced the debt balance from USD $320 to USD $260 million as of June 30, 2021.

	June 30, 2021
Proceeds on sale of Milano	$ 1,600,000
Net investment in Milano	(2,399,630)
Loss on sale of Milano	$ (799,630)

b. ***Sale of Revman*** **-** On June 30, 2021, the holding company Kaltex Northamerica, Inc., a subsidiary of Kaltex sold the investment in its subsidiary Revman International, Inc. to a third party for US $66 million, which will be paid in June US $40 million and in September US $26. Given that Revman does not represent a major segment of the Entity, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date.

	June 30, 2021
Proceeds on sale of Revman	$ 1,306,978[(1)]
Net investment in Revman	(352,058)
Gain on sale	$ 954,920

c. ***Impairment of Long-Lived Assets*** - The Entity has recorded an amount of $171,261 and $69,488 (thousands of Mexican pesos) for impairment of Subsidiary Coltejer, S.A. as of June 30, 2022 and December 31, 2021, respectively.

2. Basis for preparation

a. ***Basis of preparation***

These unaudited condensed consolidated interim financial statements as of June 30, 2022 and for the six-month periods ended June 30, 2022 and 2021, are unaudited and have been prepared in accordance with IAS 34, Interim financial reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements as of and for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Seasonality

Our textile segment is subject to seasonal fluctuations. The textile segment is most active from July to October, with production declining from December to January and a generally slow season in January and February, when sales decrease and cost of textile manufacturing remains constant.

3. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year. For the purpose of the unaudited condensed consolidated interim financial statements, certain information and disclosures normally included in the audited annual consolidated financial statements prepared in accordance with IFRS have been condensed in the unaudited condensed consolidated interim financial statements. Additionally, the operating results of the interim periods presented are not necessarily indicative of the results that the Entity would have had if they had been presented on an annual basis. Therefore, for a better understanding, the unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements as of and for the year ended December 31, 2021.

Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

These modifications have not implied changes for the Entity since it has no exposure to IBOR reference interest rates.

The Entity implemented a series of new and modified IFRS, issued by the International Accounting Standards Board ("IASB") which are mandatory and came into force as of fiscal years beginning on or after 1 January 2021.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16 after June 30, 2021, amendment to IFRS 16

In the prior year, the Entity early adopted *Rent Concessions under IFRS 16 due to issues related to COVID-19* (amendment to IFRS 16) which provides practical expedients for the accounting of concessions for lessees as a direct consequence of COVID-19, introducing a practical expedient to IFRS 16.

In March 2021, the IASB issued *Lease Concessions related to COVID-19 after June 30, 2021* (*amendment to IFRS 16*). When the IASB issued amendments to IFRS 16 in May 2020, the lessor was allowed to apply the practical expedient of the rent concession for any reduction in lease payments affecting the original payments before or as of June 30, 2022. Due to the nature of the COVID-19 pandemic, the amendment extended a practical expedient to apply those original payments on or before June 30, 2022.

In the current financial year, the Entity has applied the amendment to IFRS 16 (as issued by the IASB in May 2021) in advance of its effective date in the consolidated statement of income under other operating expenses.

The practical expedient permits a lessee to elect not to assess whether a COVID-19 related rental is a lease modification. A lessee that makes this election must account for any change in rental payments resulting from the COVID-19 related rental concession by applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rental awards that occur as a direct consequence related to COVID-19 and only if the following conditions are met:

a) The change in lease payments results in consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change.

b) Any reduction in lease payments only affects payments due on or before June 30, 2022 (a rental award meets this condition if it results in a reduction in payments before June 30, 2022 or increases lease payments that extend beyond June 30, 2022); and

c) There is no substantive change in any other term or condition of the lease.

Impact on accounting for changes in lease payments applying the exemption

The Entity has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B and has not restated prior period figures.

New and amended IFRS Standards that are not yet effective

IFRS 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or contribution of assets between an investor and its associate or joint venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	*Property, Plant and Equipment - before being used*
Amendments to IAS 37	*Onerous contracts - costs of complying with a contract*
Annual Improvements to IFRS Standards 2018-2020	IFRS 9 *Financial Instruments* and IFRS 16 *Leases*
Amendments to IAS 1 and to IFRS 2 practice statements	*Disclosure of accounting policies*
Amendments to IAS 8	*Definition of accounting estimates*
Amendments to IAS 12	*Deferred taxes related to assets and liabilities arising from a single transaction*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the unaudited condensed consolidated interim financial statements requires the use of certain critical accounting estimates. Additionally, it requires the Entity's management to use judgment in the process of applying the accounting policies of the Entity and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from the estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in the process of applying the Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the period of six-months ended June 30, 2022.

5. Cash and cash equivalents

Cash and cash equivalents are comprised as follows:

	As of June 30, 2022	As of December 31, 2021
Cash	$ 198,334	$ 225,487
Cash equivalents - Investment funds	273	268
Total	$ 198,607	$ 225,755

6. Accounts receivables

Trade and other receivables are comprised as follows:

	As of June 30, 2022	As of December 31, 2021
Trade receivables	$ 2,277,103	$ 1,784,404
Allowance for doubtful accounts	(43,198)	(41,810)
	2,233,905	1,742,594
Sundry debtors	27,664	56,295
Recoverable income tax	17,196	16,343
Recoverable value-added tax	459,074	335,040
Other recoverable tax	125,308	338,599
	$ 2,863,147	$ 2,488,871

Age of receivables that are past due but not impaired

A summary of accounts receivable shows customers due, but not yet as impaired:

	As of June 30, 2022	As of December31, 2021
1 to 30 days	$ 148,430	$ 94,394
31 to 60 days	30,519	24,789
61to 90 days	5,988	2,953
Over the 90 days	263,438	50,116
Total	$ 448,375	$ 172,252

June 30, 2022	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	1.91%	3.15%	12.44%	8.74%	-%
Estimated total gross carrying amount at default	1,337,888	30,410	154,993	753,812	2,277,103
Lifetime ECL	(35,639)	(5,374)	(1,361)	(824)	(43,198)

December 31, 2021	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	2.38%	3.50%	4.35%	33.03%	-%
Estimated total gross carrying amount at default	1,339,434	82,525	62,072	300,373	1,784,404
Lifetime ECL	(31,879)	(2,888)	(2,700)	(4,343)	(41,810)

The Entity does not maintain any significant collateral or guarantees that mitigate exposure to the credit risk of its financial assets.

7. Inventories

	As of June 30, 2022	As of December 31, 2021
Raw materials and others	$ 483,905	$ 509,900
Work in progress	602,726	523,564
Finished goods	791,790	812,706
	1,878,421	1,846,170
Merchandise in transit	69,550	15,115
	$ 1,947,971	$ 1,861,285

The Entity estimates possible impairment losses on inventories for obsolescence and for slow moving inventories, which are determined, based on the age of the inventory.

The cost of inventories recognized as an expense during the year in respect of continuing operations was $6,056,772 and $5,745,302 for the six-month periods ended June 30, 2022 and June 30, 2021, respectively.

As of June 30, 2022 and December 31, 2021, there were no inventories pledged as collateral.

8. Property, plant and equipment, net

Property, plant and equipment is comprised as follows:

	As of June 30, 2022	As of December 31, 2021
Investments:		
Land	$ 2,339,398	$ 2,427,788
Building and installations	4,036,963	4,065,132
Industrial machinery and equipment	23,300,661	23,160,997
Office furniture and equipment	84,079	85,306

	As of June 30, 2022	As of December 31, 2021
Transportation equipment	77,453	75,618
Computer equipment	228,773	223,470
Projects-in-progress	658,418	842,946
Total investments	30,725,745	30,881,257
Depreciation:		
Building and installations	$ (2,106,835)	$ (2,082,709)
Industrial machinery and equipment	(19,882,942)	(19,745,694)
Office furniture and equipment	(65,193)	(65,726)
Transportation equipment	(71,256)	(70,326)
Computer equipment	(196,731)	(195,521)
Water treatment plants	(3,825)	(4,011)
Total accumulated depreciation	(22,326,782)	(22,163,987)
	$ 8,398,963	$ 8,717,270

Opening balance as of December 31, 2021	$ 8,717,270
Translation effect	(129,071)
Additions	78,203
Disposals	(69,723)
Depreciation charge of the period	(197,716)
Balance as of June 30, 2022	$ 8,398,963

As of June 30, 2022 and December 31, 2021, there was property, plant and equipment pledged as collateral of US 80 million.

The Entity has recorded an amount of $171,261 and $69,488 (thousands of Mexican pesos) for impairment of Subsidiary Coltejer, S.A. as of June 30, 2022 and December 31, 2021, respectively.

9. Financial instruments and risk management

Capital and financial risk management

The Entity's activities expose it to a variety of financial risks: market risks (including exchange rate risks, interest rate risk on cash flows and interest rate risk on fair values), credit risks and liquidity risk. There have not been changes in the risk management department and the risk management policies compared to those applied as of June 30, 2022.

The financial ratio of total liabilities/total equity was 3 and 5.19 as of June 30, 2022 and December 31, 2021, respectively, resulting in a leverage ratio that complies with the Entity’s management and risk policies.

Financial instruments by category

As of June 30, 2022 and December 31, 2021, financial assets and liabilities consist of the following:

	As of June 30, 2022	As of December 31, 2021
Cash and cash equivalents	$ 198,607	$ 225,755
Financial assets measured at amortized cost:		
Accounts receivable, net	2,233,905	1,742,594
Accounts receivable from related parties	2,040	2,383
	$ 2,434,552	$ 1,970,732

	As of June 30, 2022	As of December 31, 2021
Financial liabilities measured at amortized cost:		
Debt	$ 4,356,665	$ 4,533,422
Accounts payable to suppliers	2,199,343	1,677,881
Accounts payable to related parties	3,212,149	3,133,762
Other accounts payable and accrued expenses	760,112	740,115
	$ 10,528,269	$ 10,085,180

Fair value of financial assets and liabilities measured at amortized cost

Except as detailed in the following table, Management of the Entity considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value:

	As of June 30, 2022		As of December 31, 2021	
	Carrying value	Fair value	Carrying value	Fair value
Debt to financial institutions	$ 4,356,665	$ 4,356,665	$ 4,533,422	$ 4,533,422

Estimated fair values as of June 30, 2022 and December 31, 2021, were determined based on a discounted cash flow basis with an approximated market rate of the current debt cost based on comparable information in the market for entities with a similar risk profile. Measurement at fair value of debt to financial institutions is considered within Level 2 of the fair value hierarchy.

As of June 30, 2022, there were no transfers between the levels of the fair value hierarchy.

Market risk

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk.

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

a) *Foreign currency risk management*

The functional currency of the majority of the subsidiaries of the Entity is the Mexican peso. The Entity is exposed to foreign exchange risk related to the Mexican peso as a result of financing obtained in U.S. dollars.

The Entity also has monetary assets and liabilities denominated in foreign currencies, mainly the US dollar, Euro, Nicaraguan Cordoba, Colombian peso and Swiss Franc, which exposes it to currency risk. However, this risk is hedged by the operations of the Entity in those respective countries.

Carrying values of assets and liabilities denominated in foreign currencies to which the Entity is mainly exposed are as follows (in thousands):

	USD	EURO	COP	SFR
Financial assets	$ 147,254	$ 13,686	$ 3,279,189	$ 756
Financial liabilities	(458,281)	(2,828)	(64,669,911)	(60)
Financial position in foreign currency	$ (311,027)	$ 10,858	$ (61,390,722)	$ 696

The following table details the Entity's sensitivity to an increase and decrease of 10% in pesos against the relevant foreign currencies. The 10% is the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents management's assessment of the reasonably possible change in exchange rates.

The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period for a 10% change in exchange rates. A positive number (as shown in the table below) indicates an increase in the results where the peso is strengthened by 10% against the relevant currency. If a weakening of 10% of the peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative (amounts in thousands):

	As of June 30, 2022	As of December 31, 2021
USD	621,578	627,732
Euro	(22,739)	6,889
Colombian peso	27,009	24,724
Swiss franc	(1,437)	2,742

b) *Interest rate risk management*

The Entity is exposed to interest rate risk because it has financial debt that accrues interest at variable rates. The Entity has short-term loans mainly for working capital as well as long-term loans for certain projects, the proceeds of which will be used to pay the related debt.

Hedging activities are evaluated regularly to align with interest rates and defined risks, ensuring the most cost-effective hedging strategies are applied.

Exposure of the Entity to interest rate risk relates primarily to the LIBOR on financial liabilities. Sensitivity analyses are prepared by the Entity based on the net exposure to floating interest rates.

Credit risk

The credit risk represents the potential loss due to non- compliance of counterparts in their payment obligations. Credit risk is generated by cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including receivables and committed transactions.

As of June 30, 2022, there have been no changes in the techniques of estimation or assumption for its allowance for impairment of trade accounts receivable and related parties determination, with respect of the techniques used as of December 31, 2021.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

The following table breaks down the financial liabilities of the Entity, grouped according to their maturity, as of the reporting date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows.

	Less than 1 year	From 1 to 3 years	More than 3 years
As of June 30, 2022			
Bank loans and long term - debt	$ 4,356,665	$ -	$ -
Interest payable	125,944	-	-
Accounts payable to suppliers	2,199,343	-	-
Due to related parties	511,379	2,700,770	-
Lease liability	79,172	149,759	129,493
Other financial liabilities	760,112	-	-
Total	$ 8,032,615	$ 2,850,529	$ 129,493

	Less than 1 year	From 1 to 3 years	More than 3 years
As of December 31, 2021			
Bank loans and long term - debt	$ 4,533,422	$ -	$ -
Interest payable	281,546	-	-
Accounts payable to suppliers	1,677,881	-	-
Due to related parties	488,339	2,662,482	-
Lease liability	78,552	232,775	125,649
Other financial liabilities	740,115	-	-
Total	$ 7,799,855	$ 2,895,257	$ 125,649

10. Bank loans

The carrying amounts of debt are as follows:

Bank	Type	Currency	Rate	Maturity	As of June 30, 2022	As of December 31, 2021
Senior Notes [1]	Offering Notes	USD	8.875%	2022	$ 4,356,665	$ 4,528,370
BNP Paribas Fortis Bank SA/ NV [2]	Simple credit	USD	LIBOR plus 2.47%	2022	-	15,884
					$ 4,356,665	$ 4,544,254
	Less - Current portion of long-term debt				4,356,665	4,544,254
	Less - Current portion of debt issuance expenses				-	(10,832)
	Current portion of long-term debt, net				4,356,665	4,533,422
	Long - term debt				-	-
	Less- debt issuance expenses				-	-
	Long term debt, net				$ -	$ -

1) Notes for US $320 million, accruing interest at a fixed rate of 8.875%, issued in April 2017, and maturing in April 2022. Accrues interest every 180 days in the months of April and October. Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Milano Inmobiliaria, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V. Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V., Grupo Milano, S.A. de C.V., Milano Operadora, S.A. de C.V., Milano Representaciones, S.A. de C.V., Milano Servicios Corporativos, S.A. de C.V., Kaltex Internacional, S.A. de C.V., Kaltex America, Inc. and Revman International, Inc.

2) Paid in January 2022.

As of June 30, 2022, the annual maturities of outstanding debt, are as follows:

Bank	Less than 1 year	More than 1 years	Total
Bank loans	$ 4,356,665	$ -	$ 4,356,665

As of December 31, 2021, the annual maturities of outstanding debt, are as follows:

Bank	Less than 1 year	More than 1 years	Total
Bank loans	$ 4,533,422	$ -	$ 4,533,422

Reconciliation of liabilities arising from financing activities

The table below details changes in the Entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Entity's consolidated statement of cash flows as cash flows from financing activities.

	As of January 1, 2022	Proceeds from borrowings	Repayments from borrowings	Other changes (i)	As June 30, 2022
Bank loans and long-term debt	$ 4,533,422	$ -	$ (57,361)	$ (119,396)	$ 4,356,665
Loans from related parties (Note 13)	2,645,423	122,775	(5,805)	(61,623)	2,700,770
	$ 7,178,845	$ 122,775	$ (63,166)	$ (181,019)	$ 7,057,435

	As of January 1, 2021	Proceeds from borrowings	Repayments from borrowings	Other changes (i)	As of December 31,2021
Bank loans and long-term debt	$ 6,454,096	$ -	$ (2,158,186)	$ 237,512	$ 4,533,422
Loans from related parties (Note 13)	1,615,244	1,542,908	(381,419)	(131,310)	2,645,423
	$ 8,069,340	$ 1,542,908	$ (2,539,605)	$ 106,202	$ 7,178,845

(i) Other changes include exchange fluctuation and expenses associated with the placement of the bond recognized under the amortized cost method.

11. Stockholders' equity

As of June 30, 2022 and December 31, 2021, the capital stock is represented by:

	Number of shares		Amount	
Fixed portion:				
Series "A"	50,000	50,000	$ 50	$ 50
Variable portion:				
Series "B"	4,017,940,410	4,017,940,410	4,017,940	4,017,940
Total	4,017,990,410	4,017,990,410	$ 4,017,990	$ 4,017,990

Capital stock consists of common registered shares with a par value of one peso per share. Shares of Series "A" can be acquired only by Mexican citizens. Variable capital is unlimited.

a. Stockholders' equity, except for restated paid-in capital and tax-retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

b. The balances of the stockholders' equity tax accounts as of June 30, 2022 and December 31, 2021 are as follows:

	As of June 30, 2022	As of December 31, 2021
Contributed capital account	$ 8,672,597	$ 8,336,051
Net account tax profit at the end 2013 (CUFIN)	961,974	959,456
Total	$ 9,634,571	$ 9,295,507

12. Equity and income of non-controlling interest

The following table lists the subsidiaries in which a significant non-controlling interest exists. The amounts shown as of June 30, 2022 and December 31, 2021 are presented before eliminations:

		Proportion of the non-controlling interests with voting rights		Income of the period allocated to non-controlling Interests		Equity of non-controlling interests	
Subsidiary	Location	As of June 30, 2022	As of December 31, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021	As of June 30, 2022	As of December 31, 2021
Coltejer, S.A.	Colombia	39.74%	39.74%	$ 216,317	$ 417,852	$ 832,889	$ 477,615
Kaltex Textiles, S.A. de C.V.	Mexico	26.30%	26.30%	59,814	(12,611)	830,478	909,621
Total				$ 276,131	$ 405,241	$ 1,663,367	$ 1,387,236

Subsidiaries' condensed financial statements in which a material non-controlling interest exists:

	As of June 30, 2022	As of December 31, 2021
Coltejer, S.A.:		
Total assets	$ 3,717,635	$ 3,941,364
Total liabilities	$ 2,743,246	$ 2,739,513
Net assets	$ 974,389	$ 1,201,851
Total revenues	$ 3,871	$ 95,132
Net loss of the year	$ (182,267)	$ (635,841)
Kaltex Textiles, S.A. de C.V. and subsidiaries:		
Total assets	$ 14,463,121	$ 14,811,375
Total liabilities	$ 11,321,327	$ 11,361,551
Net assets	$ 3,141,794	$ 3,449,824
Total revenues	$ 6,782,078	$ 11,696,209
Net gain (loss) of the year	$ 227,430	$ 272,937

13. Balances and transactions with related parties

Transactions with related parties for the six-month periods ended June 30, 2022 and 2021, were as follows:

	Six-month periods ended June 30, 2022	2021
Sales revenues and others:		
Other income	$ 2,738	$ 7,389
Expenses:		
Lease income	$ 1,898	$ 1,898
Interest expense	7,555	7,261

As of June 30, 2022 and December 31, 2021, the balances with related parties are as follows:

	As of June 30, 2022	As of December 31, 2021
Accounts receivable -		
Operadora Circulo CCK, S.A. de C.V.	$ 1,875	$ 2,088
Other	165	295
	$ 2,040	$ 2,383
Accounts payables-		
Kaltex Inmobiliaria, S.A. de C.V.	$ 329,124	$ 307,116
Inmobiliaria Los Mejia, S.A. de C.V.	19,088	74,930
Inmobiliaria Emilio Castelar, S.A. de C.V.	41,923	40,519
Inmobiliaria Baz Rivera, S.A. de C.V.	21,084	13,912
Rancho Los Mejias, S.A. de C.V.	74,953	20,980
Inmobiliaria Barrientos, S.A. de C.V.	14,419	20,342
Inmobiliaria Mago, S.A. de C.V.	3,669	3,669
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	7,119	6,871
	$ 511,379	$ 488,339
Long-term accounts payable-		
Grupo MCM Colombia, S.A. (1)		
Long-term debt	$ 1,604,751	$ 1,543,599
Mosjak, S.A. de C.V. (2)		
Long-term debt	1,096,019	1,101,824
	$ 2,700,770	$ 2,645,423

(1) As of June 30, 2022, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal US $65 million, accruing interests at a rate of 10%, with maturity in 2024.

(2) As of June 30, 2022, the long-term balance payable to Mosjak, S.A. de CV, is composed loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with a maturity in 2024.

14. Costs and expenditure by nature

	For the six months ended June 30, 2022	2021
Cost of sales:		
Wages and salaries	$ 640,464	$ 598,186
Employee benefits	384,472	388,045
Profit sharing	68,713	80,457
Raw material	3,481,506	3,152,549
Manufacturing expenses	65,200	68,217
Freight	151,790	142,783
Maintenance	205,336	185,071
Leasing	10,075	4,055
Electricity	468,679	454,688
Fuels and lubricants	220,586	236,588
Logistics services	59,872	63,776
Customs charges	37,615	32,012
Other	68,184	129,624
Subtotal	5,862,492	5,536,051
Depreciation and amortization	191,727	206,446
Depreciation of right-of-use asset	2,553	2,805
Total	$ 6,056,772	$ 5,745,302
Selling expenses:		
Wages and salaries	$ 44,063	$ 89,155
Employee benefits	11,395	23,759
Profit sharing	7,770	2,520
Publicity	956	11,076
Travel expenses	2,106	1,564
Insurance	3,446	3,780
Freight	79	2,214
Fees	2,948	17,227
Maintenance	341	1,497
Electricity	101	617
Water	-	79
Bank commissions	746	8,018
Royalties	4,822	97,045
Sales commissions	15,000	12,867
Other	676	9,093
Subtotal	94,449	280,511
Depreciation and amortization	1,459	1,457
Depreciation of right-of-use asset	161	1,206
Total	$ 96,069	$ 283,174

	For the six months ended June 30,	
	2022	2021
Administrative expenses:		
Wages and salaries	$ 74,887	$ 153,506
Employee benefits	18,634	42,860
Profit sharing	7,950	2,520
Travel expenses	908	1,495
Insurance	9,298	9,021
Fees	55,052	36,345
Maintenance	11,148	27,009
Leasing	32,280	82,528
Phone	6,284	7,751
Electricity	3,150	2,635
Bank commissions	627	1,321
Others	18,167	12,987
Subtotal	238,385	379,978
Depreciation and amortization	4,530	17,388
Total	$ 242,915	$ 397,366

15. Income taxes

The reconciliation between the statutory and effective income tax rates was as follows:

	For the six months ended June 30,	
	2022	2021
	%	%
Income tax at statutory rate	30	30
Add (deduct) the effect of permanent differences:		
Non-deductible items	120	4
Adjustment for inflation	(5)	(4)
Deferred adjustment in subsidiary	39	10
Tax losses	20	5
Effective rate	204	45

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

16. Financial information by segments

The information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment is based on three segments as follows:

- Textile: manufacture and distribution of yarns and fabrics of all kinds of natural and synthetic fibers.
- International: distribution for home products in USA, manufacture and distribution in Colombia for the fashion industry and our fabric and yarn distributor for South America.

Transactions between the operating segments are carried out at market value and the accounting policies used to prepare information by segments are consistent with those used to prepare the Entity's consolidated annual financial statements.

	June 30, 2022			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 3,084,746	$ 8,028,488	$ (4,398,880)	$ 6,714,354
Gross profit	71,858	688,431	(102,706)	657,583
Sales expense	58,427	79,815	(42,173)	96,069
Administrative expenses	68,373	250,757	(76,215)	242,915
Other expenses (income), net	(108,042)	98,167	(15,682)	(25,557)
Depreciation and amortization	2,870	194,846	-	197,716
Depreciation of right-of-use asset	-	2,714	-	2,714
EBITDA	(160,114)	653,586	-	493,472
Interest expenses, net	54,894	213,724	29,059	297,677
Exchange gain, net	(54,169)	148,718	15,724	110,273
Income tax	(45,242)	260,633	-	215,391
Consolidated net loss of continuing operations	(226,805)	130,387	(13,335)	(109,753)

	June 30, 2021			
	International	**Textile**	**Eliminations**	**Total Consolidated**
Net sales	$ 3,978,866	$ 5,561,281	$ (2,579,522)	$ 6,960,625
Gross profit	495,357	972,505	(252,539)	1,215,323
Sales expense	281,522	69,175	(67,523)	283,174
Administrative expenses	241,260	209,314	(53,208)	397,366
Other expenses (income), net	2,044	(6,318)	22,221	17,947
Gain from the sale of Revman	(954,920)	-	-	(954,920)
Depreciation and amortization	23,008	202,583	-	225,591
Depreciation of right-of-use asset	-	4,011	-	4,011
EBITDA	948,459	906,928	-	1,701,358
Interest expenses, net	80,336	343,843	-	424,179
Exchange gain, net	(135,761)	54,140	-	(81,621)
Income tax	(6,219)	436,105	-	429,886
Consolidated net loss of continuing operations	715,573	(25,474)	-	536,070

17. Commitments and contingencies

The commitments and contingencies of the Entity are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2021. As of June 30, 2022, there have been no material changes to the Entity’s commitments and contingencies since December 31, 2021.

As December 31 the 2021, the Entity has Senior Notes of $220 million USD listed in Singapore issued in 2017.

On April 11, 2022, Kaltex defaulted on the payment of Senior Bond ("Bonds") principal, which constituted a default event. This event was timely reported by the Company to bondholders in accordance with applicable provisions and, to date, the Entity has not received any communications regarding debt acceleration. The full amount of $218 million USD was reclassified to short-term debt in the Consolidated Statement of Financial Position as of June 30, 2022 and December 31, 2021, respectively, which resulted in short-term liabilities significantly exceeding current assets as of that date. From that point and to date, the Company has continued to discuss the terms and conditions under which the Senior Bonds will be paid and renegotiated with bondholders.

The Company's plan to partially pay the bonds and renegotiate the remaining bonds is as follows:

Part A – Bank Loan – To cover the partial bond settlement, the Company requested and obtained a bank loan of $100 million US dollars for a ten-year term with a three-month grace period, on which it may draw up to 40% in US dollars or up to a minimum of 60% in Mexican pesos at a 91-day TIIE rate + 285 basis points, with quarterly payments. At the date of these consolidated financial statements, the term sheet has been signed and the contract is being drawn up.

Part B Agreement with Bondholders -The remaining $118 million US dollars will be substituted through a "rollover" of the prior debt with the exchange of a new bond issuance. The Company identified five main bondholders, which jointly hold approximately 45% of the current bond. This bondholder group ("Ad Hoc Group") came together to negotiate refinancing terms.

The Company has a draft of the Transaction Support Agreement ("TSA"), which details the commitments of the Ad Hoc Group and Kaltex to refinance the current bond.

The entity may have some tax contingency for federal payments, in the event that the authority makes some payments required.

18. Authorization to issue the consolidated financial statements

On September 14, 2022, the issuance of the accompanying consolidated financial statements was authorized by Mr. Rafael Kalach, Chief Executive Officer and C.P. Carlos Avelar Guerrero, the Entity's Legal Representative; consequently, they do not reflect events occurred after that date.

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In order to exchange Existing Notes in the Exchange Offer, an Eligible Holder should review the directions contained in this Exchange Offer Memorandum and arrange for the delivery of its Existing Notes through ATOP by the Expiration Date. Please note that an Eligible Holder of Existing Notes desiring to participate in the Exchange Offer must instruct its bank, broker, dealer, trust company or other custodial entity (pursuant to the procedures of the custodial entity) to tender its Existing Notes on such Holder's behalf.

The Information and Exchange Agent for the Exchange Offer is: D.F. King & Co., Inc.

By Mail/Overnight Courier/Hand:
D.F. King & Co., Inc.
48 Wall Street
New York, NY 10005

Telephone +1(212) 269-5550
or toll-free in the U.S. (888) 541-9895

E-mail address for inquiries and to request materials:
kaltex@dfking.com

Website: www.dfking.com/kaltex

Any questions or requests for assistance or for additional copies of this Exchange Offer Memorandum, any public announcement made by the Company in connection with the Exchange Offer, and any amendments or supplements to this Exchange Offer Memorandum may be directed to the Information and Exchange Agent at one of its telephone numbers, its e-mail address or its website set forth above.

Any questions regarding the terms of the Exchange Offer should be directed to the Dealer Manager at the address and telephone numbers set forth below:

The Dealer Manager for the Exchange Offer is:

BCP Securities, Inc.
289 Greenwich Avenue
Greenwich, CT 06830
United States
Attn: James Harper
(203) 629-2186
Email: jharper@bcpsecurities.com